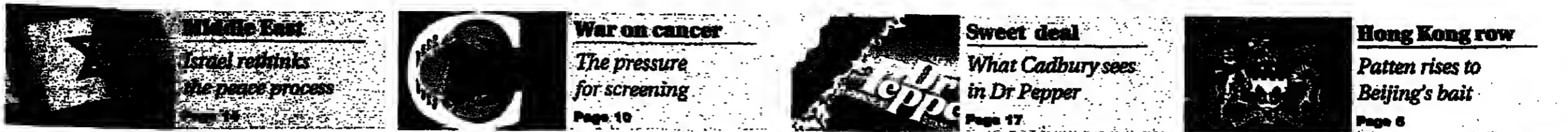


FINANCIAL TIMES



World Business Newspaper TUESDAY JANUARY 24 1995 D8523A

China's 'supergun' may be destined for export market

China unveiled a 22-metre-long 850mm "supergun" which could be used against neighbouring countries. Defence attaches in Beijing said that while there was no obvious target for such a device, South Korea and Taiwan would be within range. China has an arsenal of ground-to-ground missiles but the weapon could be designed for export. Page 6

Agal's premier to quit: Portuguese prime minister Anibal Cavaco Silva, who inspired an economic resurgence in the country, said he would not stand for re-election in October. Page 16

Metallgesellschaft: German industrial and trading company, rejected criticisms in a US lawsuit by ex-chairman Heinz Schimmelbusch and said it would sue him in the next few days. Page 17

PLO to act against militants: The Palestine Liberation Organisation vowed to take tough action against Islamic extremists linked with Sunday's suicide bombing which killed 19 Israelis. Page 5; Terror takes its toll, Page 14

Italian PM likely to win confidence vote: Italy's new prime minister, Lamberto Dini, looked set to win a confidence vote in parliament with the abstention of the right-wing coalition of former premier Silvio Berlusconi. Page 2

IBM profits surge: International Business Machines reported its first year of profitability and revenue growth since 1990, with fourth-quarter net earnings of \$1.2bn - well above Wall Street projections. Page 17; Poor results at Stratus, Page 20

UK growth revives fears of rate rise

Britain's economy continued to grow at a fast rate in the final quarter last year, boosting speculation of a further rise in bank base rates next month or in March. The UK's Central Statistical Office estimated that gross domestic product, the total of goods and services produced, rose by a seasonally adjusted 0.8 per cent in real terms between the third and fourth quarters, increasing output in the final 1994 quarter by 4 per cent compared with the same three months the year before. Page 8

Samsung Heavy Industries: South Korea's biggest construction equipment producer and one of several facing a dumping complaint from European rivals, is to establish its first foreign manufacturing plant in a former steel fabrication factory in northern England. Page 8

Cuts threaten Swedish childcare: Sweden's childcare system is feeling the strain of the crisis in public finances which has forced the ruling Social Democrats to propose public spending cuts of some SKr50bn (\$37bn). Page 16

Satellite phone contest: A race to build the first global hand-held satellite phone system is under way with the completion of equity financing for one competing company, Inmarsat, London-based satellite communications group. Page 7

Author in court over oppression claim: Turkish author Yasar Kemal appeared at a state security court to explain statements in a German magazine article accusing the state of systematically oppressing its people, particularly the Kurds. No formal charges have been laid.

Mercedes-Benz: which expects its commercial vehicle operations to return to profit this year, plans to raise van production capacity in Europe by 60 per cent and begin van assembly in South America. Page 16

New FT print site

From today, the Financial Times begins printing in Sweden as part of its international expansion. The site at Jönköping in southern Sweden is the sixth in the newspaper's network.

The FT is also printed in London, Frankfurt, Roubaix (France), New Jersey (US), and Tokyo. Over the next year, the newspaper is planning to add print centres in southern Europe, Hong Kong and California.

Cost savings expected from creation of world's largest drugs group

Glaxo in £9.4bn Wellcome bid

By Jenny Leesby in London

Glaxo yesterday launched a \$9.4bn (\$14.7bn) bid for Wellcome, which would make Glaxo Wellcome the world's largest drugs company but lead to substantial job cuts among the new group's 82,000 employees.

Cost savings and complementary research programmes were the main reasons for the move, said Sir Richard Sykes, Glaxo's chief executive.

The Wellcome Trust, a research charity which owns 88.5 per cent of Wellcome's shares, agreed on Sunday to accept the offer, subject to High Court approval. Wellcome itself was only informed of the bid yesterday morning in a telephone conversation between Sir Richard and Mr John Robb, Wellcome's chairman and chief executive.

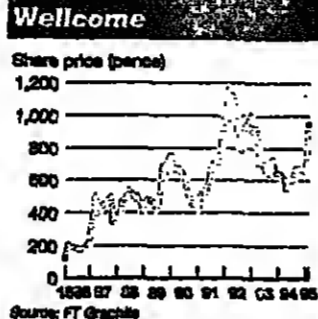
In view of the unsolicited nature of the offer, the Wellcome board was "evaluating all available options for the company", it said. It strongly recommended shareholders "take no action".

The offer would result in a four-day opt-out period, during which the trust can change its mind on the basis of new information from the Wellcome board. However, the offer itself is final and cannot be amended unless there is a rival bid.

Glaxo is offering £7.22 in cash and 0.47 of a new Glaxo share for each Wellcome share. This is based on a value of 1.025p per Wellcome share, which represents a 49 per cent premium over Friday's closing price of 689p, and amounts to a market capitalisation of £5.8bn.

Full acceptance of the offer, also available to shareholders in the US, would involve the issue of 409m new Glaxo shares, equivalent to about 11.8 per cent of the company's enlarged ordinary share capital, and a cash payment of £5.3bn.

Lazard Brothers, Glaxo's financial advisers, said financing had been agreed with several banks to cover the whole cash payment. However, Glaxo's net liquid assets are estimated at more than £2.5bn. This cash pile had made an acquisition likely for some time, as had the expiry of patents on Glaxo's best-selling ulcer treatment, Zantac, which accounts for about 43 per cent of sales. Glaxo has just won approval for a non-prescription version of the drug in the UK, but earnings growth is bound to slow eventually and the company yesterday reported the first fall in Zantac sales, in the second half of last year.



Medicine for a changing marketPage 15
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Wellcome staff could net £170mPage 22



Sir Richard Sykes yesterday: takeover of Wellcome would mean cost savings

For similar reasons, Wellcome has been seen as a likely takeover target. The US patent on the

Continued on Page 16

Head of Britain's top life insurer quits

By Norma Cohen and William Lewis in London

Mr Mick Newmarch, chief executive of Prudential, the UK's largest life insurer, resigned abruptly yesterday, as the company disclosed that the Stock Exchange was investigating his dealings in Prudential shares.

Mr Newmarch, 56, who made a £203,000 profit from controversial share dealings last October, cited a worsening relationship between him and regulators of UK retail financial services as the reason for his resignation.

Following a five-hour board meeting yesterday, Prudential issued a statement saying it had "reluctantly" accepted the resignation of Mr Newmarch, who has spent his entire working life, since 1955, at the company and has been chief executive since 1990.

Mr Newmarch is due to discuss his share dealings with Stock Exchange officials today. His resignation will be controversial because the Prudential is one of the leading UK institutional investors, managing roughly £70bn (\$110bn) of funds, and Mr Newmarch is one of the insurance industry's most prominent figures.

Sir Brian Corby, the Pru's non-executive chairman, will take executive responsibility for the group, and chair the executive committee until a new chief executive can be found.

Mr Newmarch is understood to have contacted board members over the weekend to let them know he intended to resign.

Sir Brian insisted Mr Newmarch's resignation reflected the accumulation of years of frustration with the regulatory structure, rather than the on-going investigation by the Stock Exchange. "He felt enough is enough," Sir Brian said.

"At the end of the road, we had to agree," Sir Brian said of Mr Newmarch's decision. "He did the honourable thing."

Mr Newmarch netted a £203,000 profit on October 25 by exercising options on 208,750 shares in Prudential, and then selling them before the Securities and Investments Board, the City's regulatory watchdog, published a highly critical report on the mis-selling of personal pensions. The report had been circulated within the industry before publication.

Mr Newmarch exercised the options at a price per share of 198.5p, selling the shares in the market at 259p. Prudential shares rose after publication of the report.

Prudential defended Mr Newmarch's dealings at the time on the grounds that it was the last day on which he could exercise the options before they expired. However, the Stock Exchange is thought to have questioned why he then sold the shares.

The Stock Exchange said yesterday that Mr Michael Law-

rence, its chief executive who used to be the Prudential's finance director, had played no part in the investigation. "He explicitly removed himself," a spokesman said.

Mr Newmarch's share dealings were apparently picked up by Stock Exchange investigators in the "normal course of events", an official said.

Mr Newmarch has been an outspoken critic of the Personal Investments Authority, the new self-regulatory body for the retail financial services industry. The Prudential has been almost alone

in the industry in refusing to join. He attacked it for interfering unduly in the internal affairs of companies.

Mr Keith Bedell Pearce, a director of Prudential and a board member, said Mr Newmarch had the full support of the group's executive directors, both for the stance he took towards the retail financial services regulators and over his share dealings.

Analysts said the resignation was disturbing because of the lack of an obvious successor.

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Mexico to repay loans, Page 4

Tokyo markets count costs of earthquake, Page 6

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Bonds, Page 24

Currencies, Page 25

World stocks, Second section

London stocks, Page 30

Japan

Nikkei 225 Average

22,000

21,000

20,000

19,000

18,000

17,000

1994 95

Source: FT Graphix

Lex, Page 16

Microsoft and Sony link to devise superhighway products

By Alan Cane in London and Michio Nakamoto in Tokyo

Microsoft, the world's largest computer software company, yesterday announced it will work with Sony of Japan to create products for the developing information superhighway.

It will be the US company's first substantial collaboration with Sony, one of the world's leading consumer electronics companies, and is wider in scope than Microsoft's agreements with other hardware manufacturers.

The two companies intend to examine a broad array of products and markets for the superhighway - the term used to describe high capacity telecommunications lines connected with the home and office.

Mr Bill Gates, Microsoft's chairman, said the alliance was a consequence of the convergence of consumer electronics and computers. "When we sat down to discuss shared goals, it was clear

that consumers worldwide could benefit from our co-operative innovations," he said.

One possibility is that Microsoft will support the recent alliance between Sony and Philips of Holland on the design of the next generation of video compact discs. A rival design from Time Warner and Toshiba has attracted backing from Matsushita and Pioneer. Microsoft is understood to be impressed by the Sony/Philips format, but has not decided which to support.

Neither Microsoft nor Sony would speculate on future products. They said they intended to work initially on the hardware and software necessary to deliver video entertainment which viewers can control. Microsoft has already developed a system capable of transmitting video pictures along telephone lines.

An immediate task will be to develop electronics which can be incorporated in a television set to receive and decode the picture

and allow the viewer to send instructions and messages back to the central computer. A Sony spokesman said the collaboration might lead to a commercial interactive video system by next year at the earliest.

This has not proved an easy alliance to forge. The two companies began talking last July and have spent the past six months defining areas where they could work profitably together.

No value has been put on the deal and no money has changed hands. Sony researchers, led by Mr Junichi Kodera, a senior managing director in the company, are moving into Microsoft's Redmond research centre in Washington state.

Observers said the alliance gives Microsoft a chance to catch up in the area of interactive video, where it has lagged behind Oracle in software and Hewlett Packard in hardware. It gives Sony the basis for a previously absent multimedia strategy.

Microsoft's alliance with Sony is part of a broader strategy to expand into consumer electronics. The company has already acquired a 10 per cent stake in the Japanese electronics giant, Matsushita.

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"I know it's late, but I'd like some sushi. How far do I have to go?"



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Western criticism of fighting in Chechnya grows more strident

Rouble plunges to record low

By Chrystia Freeland
in Moscow

Russian economic reforms and the country's chances of aid from the west were again in danger yesterday as financial markets pushed the rouble to a new low and western leaders stepped up their criticism of the war in Chechnya.

The continued collapse of the rouble and increasingly sharp western attacks on the fighting came at a time when the Russian government is trying to persuade the International Monetary Fund to extend a \$6.25bn standby loan.

However, both western economists in Moscow and Russian currency traders yesterday registered their growing scepticism about the government's commitment to the austerity programme it unveiled in the autumn.

The markets delivered their verdict by pushing the rouble to an all-time low of 3.989 against the dollar yesterday. Traders, who said the war in Chechnya and inflationary expectations were driving investors into the safe haven of hard currency, predicted that the rouble would fall below 4.00 by the end of the week.

Senior western officials, led by the Germans, also intensified pressure on the Kremlin to

European Union foreign ministers yesterday condemned the "serious violations of human rights" in Chechnya, but steered clear of threats of economic sanctions against Russia, writes Lionel Barber in Brussels.

Diplomats said the measured language reflected a consensus within the Union to avoid taking any steps which could undermine President Boris Yeltsin or weaken the forces of economic reform in Russia.

Ministers avoided any decision to delay the signature of an interim partnership and co-operation agreement which provides for trade benefits and closer political ties between the EU and Russia.

change its political and economic course. Mr Klaus Kinkel, the German foreign minister, warned yesterday that the Chechen misadventure could deprive Russia of western financial assistance and investment.

"If things continue in Chechnya as they appear at the moment then investment, and of course economic support as well, will be automatically withheld," Mr Kinkel said. His comments were echoed by Mr Günter Rexrodt, the German economics minister, who warned yesterday that Russia risked "gambling away" western aid and investment if it continued to pursue the war in Chechnya.

Intensified western criticism of Russia's political course

A statement issued last night in Brussels called for an immediate end to the fighting and the opening of negotiations on a political solution to the conflict between Russia and rebels in the breakaway republic.

Ministers also demanded freedom of access to Chechnya in order to guarantee humanitarian aid convoys to the stricken population.

The EU is hoping that Russia's agreement to allow a delegation from the Organisation for Security and Co-operation in Europe (OSCE) could open the way for the OSCE to play a role in resolving the crisis, leading to free and fair elections in Chechnya.

coincided with renewed efforts by the Russian Finance Ministry to push the 1995 budget through parliament, in a debate scheduled for tomorrow, and persuade the IMF to extend a standby loan. But, despite Russia's stepped-up rhetorical campaign, western economists in Moscow remained sceptical yesterday about the government's commitment to macro-economic stabilisation.

Mr Sergei Alekashenko, deputy minister of finance and one of the few remaining reformers in the cabinet, said yesterday that the IMF must relax its technical requirements and extend aid to Russia because otherwise "fascists and communists" would take control of the government.

Mr Vladimir Panskov, the finance minister, went even further, predicting that parliament would pass the draft budget tomorrow. If the budget were passed, "there is an agreement with the IMF that Russia will receive the loan".

However, officials from western financial institutions cast doubt on his comments. "If I had to make a bet," one official said, echoing the views of several western economists interviewed yesterday, "I would say the budget will not be passed." Western officials also insisted that, notwithstanding Mr Panskov's claim, ratification of the budget by parliament would not guarantee that Russia would receive the IMF loan.



A Chechen woman cowers with other refugees in a truck evacuating them from Bamut, near Grozny, which came under attack from Russian aircraft on Sunday.

grus, Mr Hajiev tried to blame his key colleague, Mr Umar Avturkhanov, who heads the interim government legislative arm, and Mr Dudayev. Mr Avturkhanov himself blames Mr Dudayev as well.

"We tried our best to avoid Russia's interference here but we also saw there was no other way out," Mr Hajiev said. "If we manage to preserve Russia on a democratic path, Chechnya will also be democratic."

hampered not only by the mounting costs of the Chechen war and pressure from various lobbies, such as farmers and the military, to increase expenditure, but also by the perception that the government in Moscow is not wholeheartedly committed to economic reform.

"It is one thing if you have a reformist government willing to spread the pain of an austerity budget equitably among the population," one western economist said, "but that does not seem to be the case in Russia."

Economists are particularly troubled by the government's preferential treatment of the oil and gas sector, the country's most prosperous industry and one with powerful allies within the cabinet.

Examples of the oil and gas sector's favoured status include a decision in December to set the tax on gas exports at \$2.50 (\$2.50) per 1,000 cubic metres, rather than the \$10 recommended by the IMF.

This decision alone, economists say, deprived the cash-strapped treasury of \$500m in revenues. Another unresolved issue is the decree to liberalise oil exports, which western economists say could be meaningless by as yet unresolved details of its implementation.

Dini on course to win key vote in assembly

By Robert Graham in Rome

Italy's new prime minister, Mr Lamberto Dini, yesterday looked set to win a confidence vote in parliament with the abstention of the right-wing coalition of former premier Silvio Berlusconi and his allies.

The move to abstain in the vote tomorrow was hinted at by Mr Berlusconi in his initial reaction to Mr Dini's speech of the action programme of his emergency government, composed exclusively of non-politicians.

"An abstention would allow the government to operate and would give us the opportunity to vote on a case-by-case basis," Mr Berlusconi told state television after the opening of the confidence debate in the chamber.

It was the clearest indication so far that Mr Berlusconi had been forced to backtrack on his objections to Mr Dini serving in more than the briefest of administrations leading Italy to fresh general elections.

Mr Dini's programme was centred on four priorities: improving public finances, pension reform, new regional electoral laws, and a temporary regime controlling media use during elections.

He refused to set a specific timetable, as demanded by Mr Berlusconi and his allies. However, he said: "To dissipate any doubts or misunderstandings, this government will consider its mandate finished once it has carried out the four priorities, assumed as the essential part of its programme." Mr Dini also added the threat of resignation if he found his task impossible.

The 63-year-old former director-general of the Bank of Italy said he believed it was possible to introduce new electoral laws for the regions by the end of February (to allow for spring local polls) as well as new, albeit temporary, rules on the use of the media.

These were his most immediate priorities, he said. But this appeared mainly an attempt to offer an olive branch to his former colleagues in the right-wing coalition.

He added it was equally vital to introduce a corrective mini-budget - probably of around L15,000bn (\$9.2m) - and carry out reform of the deficit-ridden state pensions system.

Significantly, Mr Dini's speech opening the confidence debate was divided into two main parts.

The first centred on a broad outline of policy guidelines into which his priorities were set, while the latter part dealt with his principal objectives. He spoke in some detail about all the key issues facing any government including restoration of ethics in public life, improvement of the judicial system.

Mr Dini also was careful to address the financial markets, promising to restore a measure of stability in government policy in the hope of allowing the lira to strengthen. He said he would commit his administration to leading Italy back into the European exchange rate mechanism as part of its belief in the EU and the move towards eventual political union.

On privatisation, Mr Dini said he would continue the Berlusconi government's policy but would speed the sale of the state's remaining interests in banking institutions. This he regarded as an important signal for liberalising Italy's financial markets.

His insistence on a broad programme caused some perplexity among the Berlusconi camp. It was interpreted as a sign that Mr Dini, despite promises of a short-term administration, could last longer than expected.

Mr Dini also refrained from any mention of early elections - the main platform of Mr Berlusconi and his allies.

In general the speech was astutely balanced with something for everyone, including the Northern League, to whom he offered more regional control over fiscal matters. His policy proposals would be hard for Mr Berlusconi and his allies to oppose without their opposition back-firing.

Earlier in the day Mr Dini announced the list of his 34 junior ministers, all non-politicians. This is the first time since the second world war that an Italian government has been entirely composed of people drawn from outside parliament. The 1993-94 Ciampi government was headed by a former governor of the Bank of Italy and contained a large number of technocrats but the junior ministers were all politicians.

EUROPEAN NEWS DIGEST

Sarajevo deal reopens roads



Lt Gen Sir Michael Jackson (left) ended his year-long assignment as commander of UN forces in Bosnia yesterday by announcing the reopening of supply routes in and out of Sarajevo at the end of the month. Meanwhile, officials of the five-nation contact group were due in Sarajevo for talks aimed at a wider settlement before travelling to Falls later in the week. The agreement on reopening the "Blue Routes" covered all international aid organisations, as well as a number of Bosnian humanitarian groups and civilian traffic. Sarajevo will once again be able to

cross the city's airport to reach government-held territory in central Bosnia, while Serb civilians will be able to cross from one Serb-held suburb to another.

Resolving the issue of Blue Routes is seen as a key component of the four-month ceasefire agreed on New Year's Day, although yesterday's deal does no more than restore the terms of an earlier agreement, brokered by the UN last spring, which broke down in July. The new deal was struck after long talks at Sarajevo airport between the Bosnian government's official in charge of relations with the UN, Mr Hasan Muratovic, and the speaker of the self-styled Bosnian Serb parliament, Mr Momcilo Krajisnik. Before leaving Sarajevo Gen Rose said it would be up to his successor, Lt Gen Rupert Smith, another Briton, to maintain the momentum until the two sides returned to direct negotiations. *Paul Adams, Belgrade*

Bulgarian cabinet nominated

The Bulgarian Socialist party, the victor in December's general elections, has named a cabinet to be approved tomorrow by parliament, where it holds a majority. The new government will be headed by Mr Zhan Videnov, a 35-year-old, Moscow-educated economist, who has led the BSP, the re-named Communist party, since 1991. The cabinet is dominated by former senior communist officials but includes technocrats in some key posts. Mr Dimitar Kostov, a former deputy finance minister and experienced technocrat, is set to become finance minister, while Mr Georgi Pirinski, a charismatic economist from the reformist wing of the BSP, has been nominated foreign minister. However, diplomats and analysts in Sofia said it remained to be seen whether, generally young, pro-reform technocrats would have much political clout in a cabinet dominated by older and more hardline members of the BSP. *Virginia Marsh, Budapest*

Britons work longest EU hours

Britons work a longer week than any of their EU partners, in the only member state where the working week has lengthened in 10 years. UK workers put in a total of 484 hours a week, compared with an EU average of 463 hours. The country with the shortest week is Belgium, where employees work 382 hours. The figures, published yesterday by the Union's statistical office, Eurostat, show that the working week has shortened in most EU countries since the early 1980s, other than in the UK where it has lengthened by over an hour since 1983. Apart from the UK, the working week exceeds 40 hours only in Portugal - which has the second longest week - Ireland, Greece and Spain. Denmark and the Netherlands have had the biggest reductions - 1.7 and 1.6 hours respectively. Belgium, France and Italy, which all had working weeks below 40 hours in the early 1980s, have remained below that threshold, while Denmark, Germany, Luxembourg and the Netherlands have all dropped below. *Emma Tucker, Brussels*

Swiss to redraft money law

The Swiss government will rewrite a draft law against money laundering after the first version was rejected by bankers and conservative politicians as too strict, the Finance Ministry said yesterday. A ministry working party should complete the new draft this year. Switzerland, under international pressure to crack down on the flow of organised crime profits, last year curtailed the country's bank secrecy for the first time, with a law allowing banks to report suspicious customers to police. But the draft law would have gone further by requiring bankers, asset managers and lawyers to call police if they suspected money was coming from the drugs trade or other Mafia-style crime. The first version of the law was circulated to banks, professional organisations and political parties for their comments. Many said the law was too sweeping in demanding banks and other financial bodies make sure of customers' identities and report suspicious deals. *Reuter, Bern*

Teleworking call to Europe

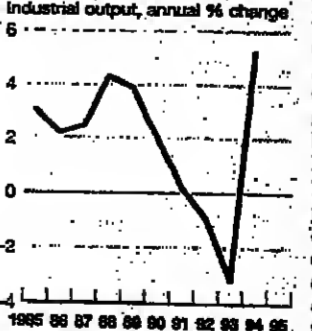
Europe must act with a greater sense of urgency if it is to become a true "information society", Mr Lucien Stancu, chief executive of IBM's European operations warned yesterday. "Technology and globalisation are transforming the way we live and work," said Mr Stancu at a conference in Brussels on teleworking - working from home using a personal computer connected by telephone to the office. "Europe must rise to the challenge, or risk falling behind the US and the Asia Pacific region," he said. In particular Mr Stancu called for changes in the regulatory environment in Europe to increase competition, lower telecommunications costs and give consumers confidence that individual privacy will be protected. He said labour laws should also be changed to allow for new and more flexible methods of work such as teleworking, and he called for changes in attitudes to ensure that Europe does not become a two-tier society where only part of the population has access to new technology. *Paul Taylor, London*

ECONOMIC WATCH

EU industrial output up 5.2%

European Union

Industrial output, annual % change



Source: Eurostat

Industrial output in the European Union rose by 5.2 per cent last year, according to statistics released yesterday by Eurostat. This follows a fall of 3.2 per cent in 1993. Output rose in all 12 EU states covered by the survey but growth was uneven. Industrial production was up 11.2 per cent in Ireland, 10.8 per cent in Denmark, 7.5 per cent in Luxembourg and 7 per cent in Spain. Italy, up 6.1 per cent, and the UK, up 5.3 per cent, also performed better than the EU average. Industrial output in Germany and France increased less than the average, however, rising 3.5 per cent and 3.2 per cent respectively. Growth was weakest in Portugal, Greece and the Netherlands: 0.3 per cent, 1.6 per cent and 2.2 per cent respectively. The overall figure of 5.2 per cent compares with 5.4 per cent in the US last year. Japanese output rose by 0.1 per cent over the same period. *Foreign Staff*

Sweden's current account in November showed a surplus of SKr900m (£76m), compared to SKr2.0bn the month before and a SKr2.3bn deficit in November 1993.

Portuguese unemployment rose to 7.1 per cent in the fourth quarter of 1994 from 6.8 per cent in the third quarter, and from 6.2 per cent in the fourth quarter of 1993.

Nato warned over eastward expansion

By Judy Dempsey in Berlin

A senior Russian official, in one of the strongest criticisms so far of Nato's plans for closer co-operation with eastern Europe, yesterday warned the organisation not to expand eastwards. If it did, "Russia might not yield," he said.

At the same time, Mr Sergei Karaganov, a member of President Boris Yeltsin's presidential council, a consultative body of experts, and deputy director of the European Institute of the Russian Academy of Sciences, said it was in the interests of Russia to have a 1,500km semi-militarised zone between Nato and the Russian federation.

That zone, he added, would include the countries of eastern Europe, particularly Poland, even though Warsaw is currently pressing for much closer co-operation with Nato and eventual

membership of the western military alliance.

Mr Krzysztof Skubiszewski, the former Polish foreign minister, immediately challenged Mr Karaganov, arguing that Poland would not be part of a "grey zone", or cordon sanitaire which had existed since 1945 until the collapse of the communist system in 1989-1990.

Mr Karaganov was speaking at a security policy conference organised by the German defence ministry in Berlin. His critical views on Nato's plans to expand eastwards gradually has rekindled the debate about Nato's own relationship with Russia, and Russia's long-term strategic interests at a time when the west is trying to come to terms with Moscow's crackdown of the breakaway republic of Chechnya.

Although Nato has repeatedly said it would not close off the possibility of including Russia in the organisation,

Mr Karaganov said its western partners should try "and stop persuading us that Nato's expansion is in Russia's interests".

Mr Karaganov, considered to represent the views of the liberal elite in Moscow, said Russia had no intention of threatening eastern Europe. "Our interest is keeping our neighbours in central Europe psychologically comfortable. We are interested in their stability. But we believe that those kinds of needs could be speeded up by the expansion of the European Union, and not by Nato expansion."

But in a warning to Nato, Mr Karaganov said "we are not interested in militarising our relationship with the west, if our borders come close [to Nato]. The reaction could be much stronger and we don't want those kinds of things to come back". He added that if Nato is expanded, "I do not know if Russia

would yield. The liberal westerners in Russia would be undermined".

His views surprised his audience of senior German military officials and defence officials and experts from the US, Britain, France, eastern Europe and Scandinavia who argued yesterday that it was not in the interests of the west to isolate Russia, especially now. "We have to adopt a different strategy from the stereotypes of the cold war," said Mr Skubiszewski, an ardent supporter of Nato offering a security blanket for eastern Europe. "But the grey zone is unacceptable," he added.

East European officials said yesterday Mr Karaganov's views only confirm the sense of urgency for these countries moving closer to Nato. But western officials said Russia did not have the right of veto over any country seeking closer co-operation or eventual membership with the alliance.

Talks on this year's wage award set to assume secondary role

German unions focus on new jobs

By Christopher Parkes
in Frankfurt

Germany's trade union leadership has made a determined attempt to divert this year's wage negotiations away from the well-worn route to the cul de sac where employers and employees customarily do battle each spring over pay percentages.

The acceptance last weekend by the DGB union confederation that shorter working times at reduced wages, and Saturday working at normal hourly rates, might help generate jobs will reduce the debate on pay and conditions into a far wider and more promising avenue which could eventually lead to a reform of the relationship between the social partners and a new deal on job creation.

Although traditional events such as walk-out warning strikes cannot be ruled out as the routine pay talks continue, shorter-term considerations such as this year's wage award will assume a secondary role. Despite some rear-guard blustering yesterday from Mr

Klaus Zwickel - the head of the heavyweight IG Metall engineering and metalworking union declared himself firmly against weekend work - the DGB's declaration was a timely intervention in a deadlocked discussion.

The unions can now turn up at talks on how to repair structural weakness in the German labour market - due tomorrow under the chairmanship of Chancellor Helmut Kohl - and justifiably claim to be adopting a constructive attitude.

On the other hand, the DGB could be said to be bowing to the inevitable: merely formalising the lifting of pay and conditions taboos which have already been fatally undermined.

Volkswagen has been operating a so-called four-day week (with matching pay cuts) in its German works for almost a year with the blessing and co-operation of IG Metall.

Implementation has been messy and muddled, and the long-term merits of the project are still in doubt, but the fact remains that most of the 30,000 workers designated as surplus

to VW's needs a year ago are still employed at the vehicles group.

The jury is also still out on a national "employment promotion" initiative dating from last year's pay and conditions settlement in the chemicals industry. Results have been mixed by the continuing run-down of the sector's workforce, which was reduced by 5 per cent last year and was warned last week that a further 30,000 jobs may go this year.

Nonetheless, negotiated cuts in starting pay enabled the industry to find jobs for 85 per cent of apprentices completing their training, and 1,000 long-term unemployed people found their way back into the workforce through a similar deal under which they were paid 90 per cent of the basic rate, according to the chemicals industry employers' association. Meanwhile, around 28,000 workers are working flexi-time in a "corridor" between 35 and 40 hours a week instead of the regular 37.5 hours.

This year's key pay talks are

now well under way. In routine fashion, metal, chemicals and other unions have tabled their claims (in general for 6 per cent), and have yet to receive an offer. The first threats of warning strikes have already been issued by IG Metall officials in Lower Saxony, agitating for action as soon as the statutory cooling-off period expires next weekend.

But the most significant "industrial action" in the coming days will be the secret enterprise among the representatives of employers, unions and government meeting in the chancellor's office. There is already a consensus that while the catastrophic job cuts occasioned by recession are past, competitive pressure and structural change within industry will continue to bloat the unemployment register for the foreseeable future.

In the light of last weekend's events, there now seems to be reason to hope that consensus on ways of responding to the problems are closer than some - including IG Metall's gruff Mr Zwickel - would like the world to believe.

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مكتبة من الأصغر

NEWS: EUROPE

Denmark resists British claim on oilfield

By Hilary Barnes in Copenhagen and Robert Corzine in London

Denmark will not be bullied by "the British lion" into giving up oil and gas exploration rights in a disputed area of the North Atlantic between the Shetland Islands and the Faroes, Mr Poul Nyrup Rasmussen, the Danish prime minister, has warned.

"We shall stand firm" against the British demands, he said in a pre-dinner speech at the annual dinner of the Foreign Press Association in Copenhagen. "We are fully aware of the Faroes Islands on the map and will not give in," he said.

The tough talk came as a surprise to diplomats involved in the negotiations between Denmark and the Faroe Islands, a mainly self-governing Danish province, and the British government.

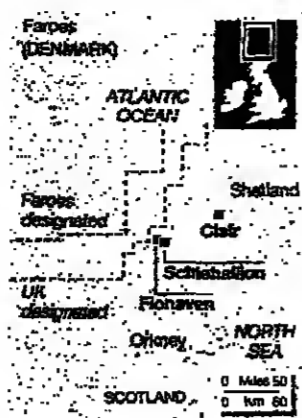
Mr Anthony Layden, deputy head of mission at the British embassy in Copenhagen, said: "Negotiations are taking place on this issue at meetings between legal and other experts. Progress is being made. The British government aims to reach a negotiated settlement," he added.

It is understood that the two sides have expressed willingness to be flexible in the negotiations. But Mr Nyrup Rasmussen was not optimistic.

He told the Financial Times that he thinks there is a strong chance that the issue will have to be resolved through the International Court of Justice in The Hague. The potential importance of the area to both Britain and the Faroe Islands, which have a population of about 43,000, has been highlighted by recent discoveries in the area west of the Shetland Islands.

British Petroleum, for example, discovered the Foinhaven and Schiehallion oil fields about 11 miles from the present boundary between the British and Faroes' economic zones.

The Foinhaven field has already been given the go-ahead for the first phase of its development. Other recent discoveries have caused excitement among government ministers and oil companies operating in the UK. Late last year the British government asked oil companies with exploration acreage in the area to accelerate seismic and drilling programmes this year to determine the extent of the possible reserves. Some estimates suggest there may be as many as 3.5bn barrels of oil in place.



Navwest Wood Mackenzie, consultants in Edinburgh, recently warned, however, that failure to reach agreement on the demarcation of the UK and Faroes sectors could delay the drilling of wells close to international waters.

Britain and the Faroes have each agreed on fishing boundaries, which each claims are equidistant from the respective coastlines.

However, agreement on sub-sea mineral resources remains elusive.

Britain argues that the median line drawn up by the Faroe Islands does not take proper account of uninhabited islands off the coast of Scotland. It wants the median line to run closer to the Faroe Islands.

The UK finds support for this argument in the 1993 judgment by the Hague International Court concerning the line of division between Greenland (which is also a Danish possession) and Jan Mayen, which is Norwegian.

When negotiations on the boundary began in 1991, Mr Uffe Ellemann-Jensen, the then Danish foreign minister, declared the British claim to be totally unacceptable, saying that the boundary claimed by Britain goes so close to the southern-most of the Faroe Islands that the Faroes would be able to split into British waters.

The Faroe Islands are entirely dependent on fisheries, which collapsed at the beginning of this decade, causing an extremely serious economic crisis.

The islanders are now pinning their hopes on oil and natural gas.

Swiss seek EU deals

Frosty Brussels sits down again with coy Berne, writes Ian Rodger

Swiss and European Union diplomats began bilateral talks last week on a series of sensitive economic and political issues, especially the freedom of movement of people. But, as so often in the past, the biggest concern is the willingness of the Swiss people to endorse any agreements reached.

In recent years, the Swiss have rejected their government's proposals to join the United Nations and the European Economic Area (EEA) and to supply UN peacekeeping forces.

The prospects for an EU-Swiss rapprochement this time look so uncertain that Switzerland, the airline whose access to EU markets is another of the main issues, is trying to solve its problem independently through buying a stake in an EU-based airline, Belgium's Sabena.

The talks became necessary after the Swiss rejected the EEA two years ago. In the aftermath of that referendum, Switzerland found itself facing growing discrimination throughout western Europe.

For example, Swiss researchers were removed from EU project steering committees and Swiss companies were obliged to pitch their bids 3 per cent lower than EEA competitors for EEA public sector contracts - and the goods had to have at least 50 per cent EEA content.

The Swiss government set out to negotiate better arrangements bilaterally with the EU, but Brussels reacted frostily. Switzerland could not hope to win bilaterally the same advantages it would have achieved through the EEA.

Last month, the Commission finally agreed to discuss three of 16 issues raised by the Swiss - research, technical trade barriers and public sector procurement - and added two of its own, agriculture and the free movement of people.

The start of talks on the most important sector for the Swiss, transport, was postponed until March. This was punishment for the result of yet another Swiss referendum last February when a majority voted to ban all transit lorries from the Alps, starting in 2004.

The embarrassed Swiss government proposed measures to make sure the effect would not be to discriminate against EU truckers or divert trans-alpine traffic to Austria and France. But it took some time to convince the EU's transport council that they would work.

As it happens, the transport issues should be among the easiest to settle as each side has clear goals. The EU wants efficient and cost-effective transit routes through the Alps, and the Swiss have on their own initiative launched a multi-billion-dollar project to

The biggest concern facing negotiators is the willingness of the Swiss people to endorse any agreements

build two high-speed rail tunnels through their mountains.

On research, it looks as if Switzerland will have to contribute more money to EU projects to regain seats on steering committees for its researchers.

The Swiss do not expect much fuss over mutual recognition of product testing and other technical trade issues, or over public procurement. And they indicate a readiness to open their tightly protected food market.

The toughest issue will be freedom of movement of people. The EU is basically demanding the extension of its internal regime to Switzerland, thus enabling nationals of both sides to live, study and work in the other's territory without hindrance.

The prospect of even more foreigners entering Switzerland - about a fifth of residents are non-Swiss - was one of the main reasons a majority voted against the EEA two years ago. And Mr Christoph Blocher, the populist anti-EU politician, has put Berne on notice that he will demand a referendum if it concedes too much in the bilateral talks.

Paris students score victory with peaceful re-run of 1968

By Andrew Jack in Paris

The issue may be more self-serving and the symbolism more commercial, but the strike last week by students at "Science Po", the prestigious political science college in Paris, shows that the tactics at least of 1968 linger on with powerful effect.

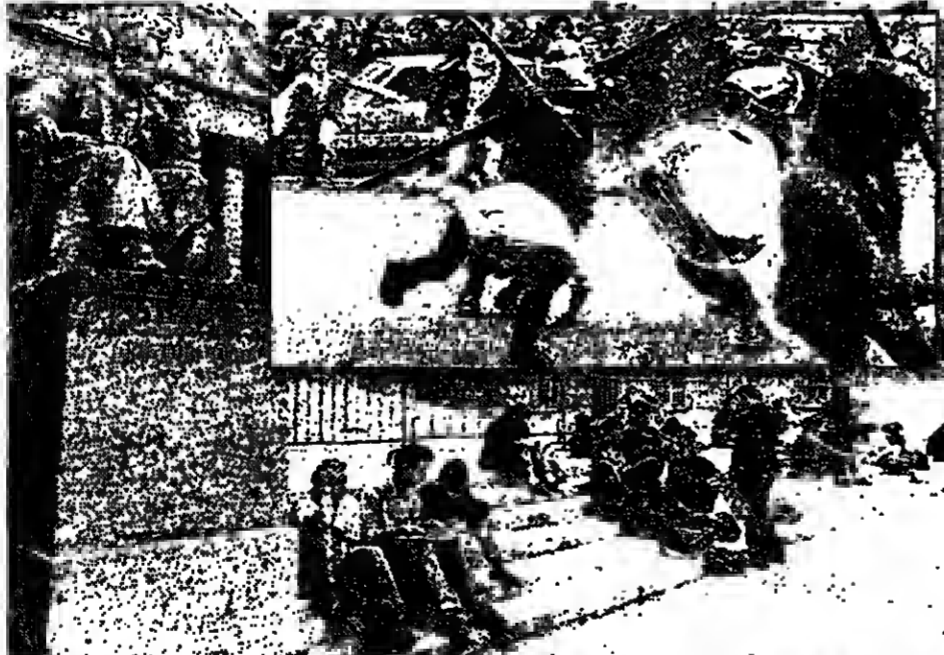
The Institut des Etudes Politiques experienced the most potent and effective direct action since the uprising of May 1968 when students went on strike last Monday. This time the protests were shorter and non-violent, but probably more effective as college administrators went into retreat on controversial new funding policies. The protest was against a threat to introduce loans in place of bursaries for those from lower-income backgrounds.

Their demonstration revealed much about the continuing tensions between students and academics in France, as well as about the broader difficulties in the funding of further education within the country.

In 1968 students at Science Po showed their solidarity with others during the insurrection gripping France. They took to the streets and boycotted their classes as calls for social reform took the place of concern about education. They occupied the college's main lecture theatre and renamed it in honour of the heroes of the era: Che Guevara and Rosa Luxemburg, the socialist revolutionary murdered in Berlin in 1919.

This time around, a campaign begun in December reached a climax last week, with an occupation of the same lecture theatre for four days and three nights.

Respecting the tradition of their forebears, the students renamed the hall. But reflecting their immersion in the media culture of the 1990s, the new name was Farnelli, a reference to a castrated 18th century Italian singer who is the subject of a recently released film. Their point was that while Farnelli was deprived of anatomical attri-



Students of the 1990s can make peaceful protest count by alluding to violent unrest of earlier years

butes at an early age, the proposed plan by the college administration would snip away at the financial aid long considered a right by students.

Early in an effort to deal with an accumulated financial deficit of FF3.8m (\$730m) hanging over from 1993, Science Po proposed to replace the grants it provides to students on low incomes with interest-free loans repayable once students began their working life.

Science Po enjoys a peculiar legal status, but broadly fits within the state education system, with 70 per cent of its funding coming from government. It charges a nominal annual tuition fee to students of FF5,000, offset for some by means-tested bursaries.

In practice, about a quarter of the 4,000 students at the college do not pay the fee on financial grounds, or for reasons such as the fact that one of their parents teaches at the institution. About 150 of the students receive government grants.

Science Po's funds other grants from its own resources.

It was these grants - regarded as a sacred right by the students - that the administrators wanted to replace with loans.

The Science Po dispute seems far removed from the circumstances of many other students in France. For those at the private universities - including the prestigious schools of commerce, such as the school of Hautes Etudes Commerciales in Paris - the annual fees can run to FF50,000 or more.

With no nationwide or state-supported system of loans, many have had to rely on special packages put together by individual banks keen to lure students who are likely to be high income-earners and therefore profitable clients in the future.

Those students above the threshold for state grants receive no financial help from the government. They have no grant for accommodation or food, for example, and there is little housing maintained by the colleges. As a result, many study in their home town and live with their families. Nevertheless, protests by some 1,000

students at Science Po, which brought classes to a halt, was sufficient to cause the administration to cave in.

"I have the right to call in the police, but it is not part of the ethic of the university," said Mr Alain Lanquet, a professor of political behaviour who is the director of the college.

He said that the substantial weight of student opinion and the strength of their arguments were enough to persuade him to agree to cancel the loans proposal and set up a committee to report by June on a longer-term solution to overhaul the college's grant system.

More broadly, the Association of French Bankers is working on proposals to be submitted to the government that would provide tax incentives and low interest rates for those saving for educational purposes.

In the meantime, the revival of even the most peaceful tactics used in 1968 seems to have been enough to counter the commercial revolution of the 1990s.

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NEWS: THE AMERICAS

Chance for Clinton to revive presidency

By Jurek Martin, US Editor, in Washington

Just about every cliché in the book is being applied in advance to President Bill Clinton's state of the union message, due tonight. On this occasion, most of them are appropriate, including the view that it may be the most important speech he has ever given.

His task appears to be nothing less than to redefine and reinvigorate his presidency and, if possible, his Democratic party, while giving the US a persuasive alternative vision to the conservative doctrines on offer from the Republican majority in Congress.

White House officials claim that the president is very much "up" for the moment, in contrast to the passivity which seemed to engulf him last November after the Republican landslide in the Congressional elections. But they concede that he must make the most of his platform tonight.

Mr Clinton has been consulting a remarkable cross-section of opinion, including historians and scholars and, more controversially, some "self-improvement" gurus better known for the advice they give to aspiring business executives.

His purpose, aides say, is to start "a dialogue with the American people about where the country should be going", a phrase Mr Clinton himself used at the weekend in a speech to the Democratic national committee.

There is risk in this approach. President Jimmy Carter's notorious television address in mid-summer 1979, when he lamented the spiritual "malaise" afflicting the country, is now generally seen as marking the start of his political slide.

Mr Clinton has talked reflectively of late in a similar vein. But his voracious reading of history should lead him away from the sort of introspection considered inappropriate for a state of the union message. Instead, he is likely to emphasize that, whatever its excesses and faults, government still has a large role to play in shaping the country's future, so long as it is complemented by more active public participation in civic life.

While expected to eschew a "laundry list" of proposals, he may use the occasion to warn that he would veto congressional attempts to undo legislation he considers important. Among the sacrosanct he

may proclaim his national service corps, recently condemned by Mr Newt Gingrich, Speaker of the House of Representatives, as enforced volunteerism, and the ban on assault weapons in the crime bill of last year which some conservative Republicans want to repeal.

The president cannot veto constitutional amendments, of which that on the balanced budget is closest to action by Congress. But Mr Clinton may highlight the importance of progressive deficit reduction.

On foreign policy, he is likely to state his opposition to Senator Robert Dole's bill to lift unilaterally the Bosnian arms embargo on May 1. Other proposals from the Senate majority leader, which would eviscerate US participation in UN peacekeeping, may also come under fire.

But mostly Mr Clinton will need to reclaim his "bully pulpit" seat at the policy table that the new and aggressive Republican majority has often seemed to want to deny him.

The president will doubtless promise co-operation where the potential for agreement exists but will also need, as the cliché runs, to draw some lines in the sand.

An American dynasty thriving yet

Jurek Martin marks the death of Rose Kennedy with an assessment of the clan

American political history is scattered with dynastic families. Some have enjoyed national power: Adams, Rockefeller, Roosevelt; some have held sway over local bases, like the Fishes of New York, the Browns of California, the Dalys and Stevensons of Illinois. But the death on Sunday, at the age of 104, of Rose Kennedy, the family matriarch, serves to remind that, in the second half of the 20th century, no name has been more associated with US public life and the cause of liberalism than that of Kennedy.

A devout Roman Catholic, Rose bore nine children, four sons and five daughters. They gave her 30 grandchildren, 28 of whom are still alive, and 41 great-grandchildren.

Her eldest son, Joe Jr, was killed in the second world war, but the other three - John, Robert and Edward - all served in the US Senate. All ran for the presidency and JFK was elected to that office in 1960. Robert might well have won in 1968 but was assassinated on the night of his victory in the Democratic party's California primary. Edward has represented Massachusetts in the Senate since 1962.

One daughter, Rosemary, was retarded and lives in seclusion. Kathleen, the eldest, was



Four in a clan: Matriarch Rose, Senator Bobby, President Jack and Congressman Joseph Kennedy

killed in a European air crash in 1948. But Rose's other three have all been in the public eye: Eunice married Sargent Shriver, the Democratic vice-presidential candidate in 1972; Jean Kennedy Smith is US ambassador in Dublin; Patricia married Peter Lawford, the Hollywood actor.

The succeeding generations have not let the torch drop. Joseph Kennedy, son of Robert, has been a congressman from Massachusetts since 1986, and Patrick, son of Edward, was elected to the House of Representatives from Rhode Island last November. The three Kennedys now in Congress set

a record for single family representation to equal that of the Washburns (of Maine, Illinois and Wisconsin) in the 1850s.

Kathleen Kennedy Townsend, daughter of Robert, was last week inaugurated as lieutenant-governor of Maryland. Mark Shriver, son of Eunice, was elected in November to the Maryland house of delegates.

Barney Frank, a congressman from Massachusetts and a family friend, wittily told the New York Times last year: "I suppose they aren't too overly represented in politics, in purely statistical terms." There is little doubt that the impulse into public life derived

from Rose's husband, Joe Kennedy Sr, first head of the Securities and Exchange Commission under President Franklin Roosevelt and later a controversial ambassador in London in the early war years when he was suspected of pro-Nazi sympathies. His hopes had been heavily vested in the oldest son, Joe, and were then re-directed to the three surviving sons.

Rose Kennedy herself was born into public service, in 1890, as the daughter of John Francis Fitzgerald, the legendary Boston-Irish politician known as "Honey Fitz". He never liked Joe Kennedy, a son

of a saloonkeeper, but Rose said she would marry him with or without parental approval.

Her role as a political matriarch was always discreet, but her offspring have repeatedly said that she was the glue that held them all together. A recently published family memoir paid tribute to "the finest teacher we ever had".

Her devout Catholic faith was imparted to her children, though not always observed by them. Taking more after their father, both John and Edward were notorious for philandering. Edward's divorce and recent remarriage could not have pleased her.

The faith also sustained her through tragedies - three sons and a daughter cut off in their prime, two by assassination. More recently, Jacqueline Kennedy Onassis died, one grandchild expired from an apparent narcotics overdose while another, Stephen Slay, was only acquitted of forcible rape after a humiliating trial.

How much she knew of the latest tribulations is unclear, for she was rarely seen in public in her final years. But she had been active in good causes, notably mental health fundraising, when well into her 80s. Her legacy, however, rests with her family's contributions to public life - and there may still be much to come.



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Mexican oil revenues to be used as loan collateral

By Leslie Crawford and Ted Bardecke in Mexico City

Mr Guillermo Ortiz, Mexican finance minister, yesterday told Congress in Mexico City that the country's oil revenues will be used as collateral for any US loan guarantees provided to help Mexico out of its liquidity crisis.

Mr Ortiz faces a storm of nationalist indignation over the growing number of conditions US politicians are seeking in exchange for the \$40bn (€25bn) loan guarantee package being considered.

He tried to reassure parliamentarians that the use of oil revenues did not imply a loss of national sovereignty. "This

method of payment... does not compromise our national sovereignty, nor does it grant anyone any rights over our oil resources, over Pemex [the national oil company], or our policies regarding oil prices and sales."

The oil guarantees were necessary to let Mexico issue longer-term debt, at lower interest rates, as a substitute for some \$29bn of tesobonos (dollar-linked treasury bills) which mature this year, he said. He reminded Congress that international confidence in Mexico's financial markets would not be restored until the US aid package, the subject of heated congressional debate in Washington, were forthcoming.

He urged the Mexican Congress to approve amendments, proposed this month, to the 1995 budget, which aims to cut government spending by 1.3 per cent of GDP as part of an austerity plan to restore investor confidence.

However, Mr Ortiz's speech included no new measures to address the continuing volatility in Mexico's currency and financial markets.

Worries that Mexico might be putting too much faith in the US package meant that, in Mexico City at midday, the peso was trading at 5.725 to the dollar, down from 5.65 at Friday's close, and the main IPC index of the Mexican stock market was down 2.69 per cent.

'Ailing banks are out'

David Pilling assesses Argentina's banking system

The president of Argentina's central bank recoils at the suggestion he might authorise a bail-out of struggling banks, some of which have been tipped into difficulties as a result of the Mexican crisis.

"There is no chance of setting up a hospital for banks," Mr Roque Fernandez says. "In Argentina, what we have are either healthy banks or the morgue: there are no sick banks."

Rumours circulate, however, that as many as 30 banks, hit by tight liquidity and the Mexican-provoked fall in the value of their security holdings, may be struggling to meet obligations.

Already, three institutions, suspended from trading for 30 days, are battling to save themselves from Mr Fernandez's morgue.

"Without doubt there are banks with problems, but how many it is hard to say," says Mr Luis Secco, an analyst at Broda economic consultancy. He says Argentina's limited deposits cannot sustain the current network of more than 160 institutions.

The first banks to suffer were small wholesale institutions specialising in trading treasury bonds, using inter-bank "call" money. When bonds plummeted and short-term interest rates tripled, to nearly 30 per cent, these banks were left highly exposed.

Pressure spread to small retail institutions with limited branch networks, as confidence waned and depositors shifted their accounts to better known banks or removed their cash from the system altogether.

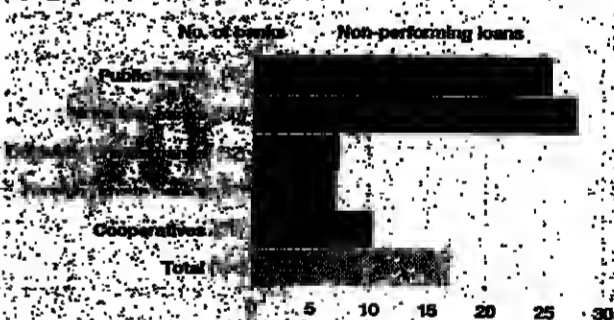
Some analysts believe that Mexican shockwaves will hasten the demise of weak institutions already facing extinction. "Everybody knows the banking sector has to contract because there are just too many banks," says Mr Nicolas Grose-Hodge, chief manager at Lloyds Bank Argentina. "The Mexican crisis may have acted as a catalyst to speed this process up."

Indeed, the focus of many investors has now shifted from fears of devaluation to concerns over the banking sector. A recent report from JP Morgan says: "The most important risk Argentina faces lies in the capacity of its financial system

to withstand a potential outflow of capital."

Argentina's banking system, still emerging from the hyper-inflationary days of the late 1980s when "banking wasn't banking as we know it", has been restructuring since economic recovery began in 1991, says Mr Grose-Hodge. Those banks that have not adjusted - by cutting costs and developing a firm retail base or a niche business - will not survive.

Argentine banks



Source: Central Bank, Buenos Aires; Broda, Banco de Galicia

Measures taken by the central bank in response to what Mr Fernandez calls a "transitory liquidity crisis" may finish off some institutions. Last week, the Bank set up a firm "liquidity fund" and relaxed reserve requirements. The larger banks have used the cash injected to buy up the portfolios of their smaller, struggling counterparts.

Although portfolio purchases tend to be small (below \$1m), together they represent a strong shift in favour of the dominant banks. The biggest 20 already-moribund 75 per cent of deposits.

The central bank denies it is provoking a contraction of the system, but as big institutions buy up the "juicy assets", the likelihood is that some smaller banks will fold under the burden of their weakened portfolios. "If a small bank is reduced to getting rid of all its best assets then clearly it is on the write-off list," says Mr Grose-Hodge.

The amount of non-performing loans (NPLs) in Argentina's financial system, although distorted by the "ghostly" portfolios of some public banks, is already high by international standards. But, as defenders of Argenti-

na's system point out, the central bank has taken firm steps recently to tighten regulations governing NPL provisions, reserve requirements, capital adequacy and risk-weighting of assets. Often these regulations are stricter than international norms.

Extrader and Finanzsur, two of the institutions suspended earlier this month, were "very special cases", according to Mr Fernandez. "When we evaluated the situation of the rest of

the financial entities, we found that the level of solvency in the whole system was very adequate, in fact over capitalised."

Mr Grose-Hodge agrees that, given the enormous pressures unleashed by Mexico's crisis, "the Argentine banking system has proved itself to be remarkably resilient." Already interest rates have returned to normal and liquidity has eased.

Mr Secco, while acknowledging the central bank's "tremendous efforts" to tighten banking regulations, believes that the system remains vulnerable. So far, Mr Secco detects what he calls "an incipient fall in deposits but nothing that has reached crisis levels yet". He says withdrawals may be due to seasonal factors, notably summer vacations. He also says the Argentina's bimonthly system - in which pesos are freely convertible and where half of all bank deposits are dollar-denominated - cuts down the risk of capital flight.

Mr Secco says that if confidence remains in the system, then there will be a "relatively orderly process" of bank mergers and acquisitions. But if this is compounded by high levels of capital flight, the process will be "far more traumatic".

PLO vows to act against extremists

By Julian Ozanne in Jerusalem

The Palestine Liberation Organisation, seeking to save the Middle East peace process from collapse, vowed tough action yesterday against Islamic extremists linked with Sunday's suicide bombing which killed 19 Israelis.

But as Israel buried the victims of the bomb blast there were growing calls inside the country for a complete suspension of the peace process and formation of a government of national unity.

Israeli prime minister Yitzhak Rabin, facing collapsing support for his peace policy in the country and internal dis-

sension inside his government, prepared to make a state of the nation address last night.

Israel's index of blue-chip shares dipped 1.5 per cent yesterday, the second day of falling share prices, reflecting continuing investor concern about the economic effects from falling hopes of Arab-Israeli peace.

The PLO maintained a stony silence on the government's punitive measures announced late on Sunday which included freezing parts of the negotiations and sealing off the West Bank and Gaza Strip from Israel.

Mr Nabil Shaath, senior PLO negotiator, said the Palestinian self-rule authority would step up the campaign against

Islamic extremists and would not release suspects after two or three days as in the past.

The Islamic Jihad which opposes peace with Israel as a sell-out of Palestinian rights, claimed responsibility for the bombing and said two of its members from PLO-ruled Gaza carried out the attack.

Thousands of Israelis attended funerals which began yesterday to bury the 19 bomb victims and demonstrators kept a vigil at the blast site.

Newspapers, even those normally supportive of the peace process, latched on to the unprecedented call by President Ezer Weizman on Sunday to suspend the peace process

and create a bi-partisan consensus on future policy. The president held talks throughout yesterday with right-wing opposition politicians seeking the creation of a national unity government. In an editorial, the right-wing Jerusalem Post said President Weizman's call was "a measure of his sensitivity to the public mood and the gravity of the hour".

Even among dovish ministers in the cabinet there appeared to be a hardening of attitudes to the peace process, the PLO leader, Mr Yassir Arafat, deputy foreign minister and one of the staunchest supporters of the peace agreement, said: "I think our duty is to

ensure that Arafat understands that he can't make do with small quantities of treatment [against Palestinian extremists] and that he must do something more serious even if that means a strong conflict with his brothers."

But Mr Shimon Peres, the foreign minister who is the strongest defender of the peace process, said the government should not be swayed by changing moods on a daily basis from its commitment to peace. "There are insane people and extremists who want to destroy everything. We cannot let them prevail."

See feature: Terror takes its toll

Kazakhs, Russia 'in move to union'

By Chrystia Freeland in Moscow

Russia and Kazakhstan are moving closer towards the creation of a "Euro-Asian Union". Mr Nursultan Nazarbayev, president of Kazakhstan, said yesterday.

Agreements on military co-operation, a customs union and currency convertibility, reached at a summit meeting in Moscow last week, were a sign of closer integration among some members of the former Soviet Union. "All these are based on my idea for a Euro-Asian Union," Mr Nazarbayev said yesterday.

The agreements between Alma Ata and Moscow, particularly the decision to move towards combining the armed forces of the two countries later this year, are signs that on Russia's eastern flank re-integrationist tendencies are reasserting themselves.

One crucial player in Mr Nazarbayev's envisioned "Euro-Asian Union" remains sceptical of closer relations with Russia. Ukraine, the second most populous republic in the former Soviet Union, continues to oppose Mr Nazarbayev's drive for reunion.

The war in Chechnya, in which Moscow alleges Ukrainian nationalist volunteers are fighting alongside the Chechens, has exacerbated diplomatic tensions between the two big Slav states.

By contrast, Kazakhstan and Russia are moving to closer co-operation economically and militarily. Last week, the two former Soviet republics announced a plan, with Oman, to build a new pipeline from the Caspian Sea to Russian ports on the Black Sea.

The deal was a victory for Russia, determined to retain a strong voice in exploiting the oil and gas reserves of the Caspian region, even though much of the territory is no longer ruled from Moscow. It also signalled Kazakhstan's pragmatic realisation that, without significant Russian participation, such projects are unlikely to go ahead.

INTERNATIONAL NEWS DIGEST

US-Egypt talks focus on N-arms

Mr Robert Pelletreau, US assistant secretary of state, met President Hosni Mubarak of Egypt yesterday to discuss Middle East peace and ways to ease tension between Egypt and Israel over the Nuclear Non-Proliferation Treaty. Egyptian officials said Mr Pelletreau would try to persuade Egypt to sign the treaty and end a crisis that has soured Cairo's relations with Israel. Egypt insists it will not sign an extension of the treaty when it comes up in April in Geneva unless Israel, widely believed to possess nuclear warheads, does so. Israel said it would not sign as long as it faces potential danger from Syria, Iraq and Iran. Mr Mubarak has repeatedly said that signing the treaty without Israel, as Cairo did before, would be "an unacceptable matter on the popular level".

Mr Pelletreau and Mr Mubarak are also expected to discuss the Egyptian leader's forthcoming visit to Washington in the spring during which he would try to rally support in Congress to maintain the annual \$2bn (£1.2bn) US aid to Cairo since it signed a peace treaty with Israel in 1979. *Reuters, Cairo*

Iraq issues new banknote

Iraq, which is grappling with hyper-inflation, is issuing a 250 dinar banknote to ease cash transactions. Official media on Monday published a decree from President Saddam Hussein authorising the central bank to issue the bill, the highest denomination note ever printed in Iraq. It joins the widely used 100 and 25 dinar notes. Before UN sanctions ravaged the Iraqi economy 250 dinars were worth \$800 as the oil-backed currency then fetched \$3.2 at the official rate. The sanctions, imposed for Iraq's 1990 invasion of Kuwait, bar Iraqi exports including oil. After runaway inflation the new 250 banknote is barely worth 50 US cents. *Reuters, Baghdad*

World airport traffic increases

World airports yesterday reported booming cargo and climbing passenger traffic over the first 10 months of 1994 although passengers passing through Asian and African terminals during the year were down on 1993. The Geneva-based Airports Council International (ACI) said October figures showed overall passenger traffic was up 7 per cent and cargo 12 per cent, while aircraft movements climbed by 5 per cent, compared with the same month in 1993. For the period January to the end of October, passenger traffic was up 8 per cent, cargo volume by 13 per cent and aircraft movements by 3 per cent, based on returns from 377 leading airports.

ACI said Europe saw the highest regional passenger growth in October with an increase of 9 per cent, closely followed by North America, where 7 per cent more people passed through airports. In the Pacific area, passenger traffic as compared with October 1993 was up six per cent, and in Latin America and the Caribbean by 2 per cent. In contrast, Asia returned a decline of 6.7 per cent and Africa of 4.2 per cent. However, Africa recorded the biggest increase of all six ACI regions in cargo traffic with a climb of 21.3 per cent. *Reuters, Geneva*

China and Sudan sign accords

Sudan and China have signed agreements to set up five factories in Sudan, the official Sudan News Agency said yesterday. Cost or financial terms were not revealed. The agency said contracts for a textile mill, a drugs plant, a packaging factory and a sportswear enterprise had been signed between Sudanese private companies and Chinese groups as part of a continuing meeting of the Sino-Sudanese Economic Committee. Representatives of 55 Chinese companies are taking part in the joint economic committee. *Reuters, Khartoum*

Angola peace move corners Savimbi

The Unita leader is finding himself isolated, writes Nicholas Shaxson

Inside a crumbling Roman Catholic church in Angola's central highlands town of Chipiipa, the chiefs of staff of Angola's government and rebel Unita forces embraced stiffly and promised that their soldiers would stop fighting.

"We are here to consolidate the ceasefire," said Unita general Arlindo Chenda Pena, known as "Ben Ben". The joint declaration issued by Ben Ben and his government counterpart, General Joao de Matos, three weeks ago was the second promise in 19 years of civil war would end.

A peace agreement was signed on November 20 in the Zambian capital of Lusaka but United Nations observers have reported isolated fighting in various parts of the country.

Unita leader Jonas Savimbi has said in newspaper and television interviews and in a speech carried on Unita radio that he has "great reservations" about the Lusaka agreement, describing it as "ephemeral".

"I am not obliged to follow the wrong path when my conscience tells me that the path is wrong."

However, he appears to be out of step with the spirit of reconciliation apparent in Chipiipa and with the activities of a joint government and Unita commission which has started



its plodding work in Luanda preparing the ground for demobilisation and the eventual creation of unified Angolan armed forces.

Mr Savimbi has warned that his forces are not prepared to accept demobilisation. The UN could not control the Luanda government which, he said, wanted to kill him and to destroy Unita.

His words have frightened many Angolans who remember clearly an accord of 1991, the culmination of a wider regional process which linked the departure of 50,000 Cuban troops with the withdrawal of South African forces from, and independence for, Angola's southern neighbour, Namibia.

That collapsed when Mr Savimbi rejected defeat in UN sponsored elections in late 1992 and took his guerrillas back to the bush. His forces held hid-

den weapons stockpiles and his clear military superiority at the time enabled him rapidly to capture large swathes of territory from the disproportionately demobilised government forces.

But even then his fortunes were starting to change as old cold war friends adjusted their priorities. South Africa, which in the 1980s intermittently invaded Angola in its support, is now ruled by a traditional ally of the ruling MPLA. The US, which supported Mr Savimbi's war against the then-Marxist Luanda government with an estimated \$250m (£160m) worth of military aid between 1986 and 1991, ended that backing.

After its post-election military defeat, the government patiently began to reorganise and to re-arm, using oil exports worth an estimated \$3.2bn last year, and by mid-1994 it was retaking territory with the help of freshly-trained Angolan counter-insurgency commandos backed up by about 500 foreign mercenaries.

Unita's central highlands stronghold of Huambo fell to the government just before the latest ceasefire.

More isolated than ever in his new headquarters in the small central town of Balundo, Mr Savimbi is weak, his power to influence events has dwindled. "Unita is going through

the worst crisis since it was created," he said in an interview with the French newspaper, Liberation, in December.

Should Unita pull out of the process (and in the past year of city sieges and cluster-bombings, the movement's leaders have been offered every excuse to do so), the government could retake yet more territory. Priorities would be the strategic air base at the northern town of Negage or more of the diamond-producing area around the town of Cafunfo, in the north-east.

The government, however, knows that despite its military advantage it will never be able to inflict a complete military defeat on Unita. Mr Savimbi's movement still has about 50,000 men under arms and could continue to fight a guerrilla war from its bush bases, drawing funds from the diamond-rich lands still under its control.

Resurgence of the war after the peace of 1992 reduced total diamond production to about \$200m in 1994, mostly from areas under Unita control.

Mr Savimbi's strategy appears to be to delay the implementation of, but not to overturn, the peace agreement. Sources inside the joint commission speak of "almost no progress" since work started after Lusaka. By delaying the process his troops stay armed

but the battle lines remain frozen by the ceasefire.

The UN has asked for signs of progress before deciding whether to expand its mission, which by the end of the month should be at its full strength of 350 military and 126 police observers, to include the 7,000 peacekeeping troops agreed to in Lusaka.

Its special representative in Angola, Mr Alioune Blondin Beye, has been told he needs to report that the ceasefire is holding before the Security Council, whose next meeting on Angola is on February 8, will approve the expansion.

Mr Savimbi's failure to turn up for the signing of the Lusaka agreement aroused fresh cynicism within the international community and among ordinary Angolans, who wish to see a meeting between Mr Savimbi and President Jose Eduardo dos Santos as a sign of their willingness to tackle the deep mistrust felt by both sides.

Although no date for such a meeting has been set, President dos Santos has agreed to it in principle and Mr Savimbi said in an interview on Portuguese television two weeks ago that he might be prepared to go to Luanda. "It is better for me to go to Luanda because then [Mr dos Santos] is responsible for me," he said. "Let them kill me in Luanda."

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NEWS: ASIA-PACIFIC

ASIA-PACIFIC NEWS DIGEST

Seoul economy 'to grow 7.3%'

The South Korean economy is expected to grow 7.3 per cent this year after gross national product posted a growth of 8.3 per cent in 1994, the central bank announced yesterday. Last year's growth reflected a 17 per cent rise in exports, which benefited from a weak Korean currency, and a resulting 20 per cent increase in capital investments to meet overseas demand. Private consumption grew 7.5 per cent.

The government, concerned about increased inflation due to the overheated economy, is expected to slow growth this year by tightening monetary control and restricting loans. Inflation is predicted to reach 6 per cent, following a 5.6 per cent increase in 1994. Consumer spending and expanded construction will be the main factors behind economic growth this year.

The current account fell into a deficit of \$4.5bn (£2.8bn) last year, against a surplus of \$880m in 1993, as Korea increased imports of machinery and industrial components to expand production. The central bank predicts the deficit will widen to \$6bn in 1995. *John Burton, Seoul*

South Korea's main commercial banks plan to base their interest rates for overdrafts on daily movements of short-term money market rates, a change from the present system under which they are practically fixed. Bank officials said disparities had often encouraged companies to seek profits by withdrawing money from banks through an overdraft, to lend it in short-term money markets. *Reuters, Seoul*

Bangkok push to sue ex-leaders

Organisers of the pro-democracy rallies in Bangkok in 1992 are raising funds to sue Thailand's disgraced military leaders whose troops killed more than 50 people in their attempt to hang on to power. An organisation representing relatives of the dead and missing reckons that \$500,000 (£218,880) is needed before the first court hearing on February 3.

Earlier attempts to take legal action against the members of the junta, that had ousted the unelected General Suchinda Kraprayoon into the premiership in 1992, have been rejected by the appeals court which said the defendants were protected by a controversial amnesty. The appeal has received about \$200,000 from Mr Chamlong Srimuang, leader of the Palang Dharma (Buddhist Force) party, currently a deputy prime minister, who played a pivotal role in the demonstrations. "Contributions from just 5,000 people could bring the truth to the surface," said Mr Abdul Khawar, chairman of the Relatives of the May Heroes Group. *William Barnes, Bangkok*

Swedes in gift horse apology

General Ake Sagar, commander-in-chief of the Swedish army, arrived in Pakistan yesterday to express his regrets to General Abdul Waheed, Pakistan's army chief, over the killing by the Swedish authorities of three Pakistani horses sent to him by Gen Waheed as a gift. Sardar, Tez and Sher-dil were destroyed shortly after they arrived in Sweden in December. Under Swedish law, Asian animals have to undergo quarantine in another European country. Earlier arrangements with Estonia fell through when officials there refused to accept the animals on arrival. The horses were then shipped straight to Sweden rather than being returned home.

Many Pakistanis expressed outrage. "The pitiable event shows how ungracious and disrespectful the Swedes can be, to look at gift horses in the mouth and shoot them," said a letter published in a local newspaper yesterday. *Farhan Bokhari, Karachi*

Thailand's draft budget for the fiscal year starting in October will be submitted to the cabinet on February 2, a finance ministry official said. At Bt32.2bn (£21bn), it is a 16.4 per cent increase over 1994. *Reuters, Bangkok*

Hong Kong's broad consumer price index rose 8.9 per cent in December year-on-year, up from 8.6 per cent in November, the Census and Statistics Department said. *Reuters, Hong Kong*

Taiwan's unemployment rate rose to 1.56 per cent in 1994 from 1.45 per cent the previous year, the Bureau of Statistics said. In December the rate was 1.41 per cent. *Reuters, Taipei*

Singapore's consumer price index rose at an average monthly rate of 3.6 per cent year-on-year in 1994, compared with 2.4 per cent in 1993, the Department of Statistics said. *Reuters, Singapore*

India plans to build 12 airports and has begun upgrading facilities in New Delhi and Bombay to cope with increased demand, according to Mr Gulam Nabi Azad, civil aviation minister. *AFP, New Delhi*

China unveils long-range 85mm 'supergun'

By Tony Walker in Beijing and Bruce Clark in London

China yesterday unveiled a prototype of a 22-metre long "supergun" which could apparently be used against neighbouring countries. The People's Liberation Army daily newspaper published a photograph of what it said was an 85mm experimental gun without giving details of its range or application.

The indistinct photograph revealed a primitive-looking device mounted on a platform without wheels and sitting on the edge of a stretch of water. The prototype was covered with camouflage paint. Defence attaches in Beijing were at a loss to explain why China should be experimenting with such a device at this stage, but they noted that it bore similarities to the "supergun" shipped to Iraq in the late 1980s, although much smaller.

Iraqi President Saddam Hussein's supergun, designed by Mr Gerald Bull, the Canadian ballistics expert who was assassinated in Belgium in 1989, was 122 metres long with a 350mm calibre. Mr Bull, whose death was widely blamed on the Israelis, spent time in China in the 1980s, and is known to have provided assistance in the development of long-range artillery systems. "Our country's first supergun barrel cannon has been

successfully made," the caption on the PLA photograph read. "This is our country's longest experimental cannon with a high initial velocity and low manoeuvrability." Western attaches said there was no obvious target for such a device, but among countries that could be within range was South Korea. Taiwan would also be within reach. The relatively small 85mm calibre of the experimental gun indicates that China has some

way to go if it is bent on developing a device capable of hurling large artillery shells over long distances. Mr Christopher Foss, editor of Jane's Armour and Artillery, said the 85mm calibre was puzzlingly low, and confirmed the impression that the model depicted was experimental. "This is not yet an operational weapon," he said. Mr Gerald Segal, an expert on Chinese defence policy, said the new gun was a "strategic

odyssey" which was out of step with Beijing's recent emphasis on naval power projection. He said in terms of range and accuracy, a supergun would not provide China with any more capacity than it already possessed through its arsenal of ground-to-ground missiles. It was possible, Mr Segal, said the weapon was designed mainly for export to the burgeoning international market for crude medium-range delivery systems.

Hong Kong divided by two masters' voices

China's 'loyalty' demand will be high on Patten's London agenda, writes Simon Holberton

When Hong Kong Governor Chris Patten arrives in London tomorrow on a three-day visit, China's latest demand concerning the colony's senior civil service will be high on the agenda in his ministerial meetings. Last week Beijing showed fear within the upper echelons of Hong Kong bureaucrats when it demanded that the British government pass over details of top civil servants' "integrity checking". It also wanted to know whether the officials have the right of abode in a foreign country, especially through Britain's own nationality scheme.

More than anything else Beijing needs the Hong Kong civil service if it is to pull off the "smooth" transfer of sovereignty in 1997 which it has always said it wants. Yet it has now measurably increased the probability of widespread resignations among brighter, more employable Chinese civil servants before the handover. The Hong Kong government claimed that it destroys the information it collects to determine top officials' integrity for

high office. Only the finding - pass or fail - is known to the civil service board when interviewing candidates for top jobs. Britain's nationality scheme for Hong Kong was brought in after the June 1989 Tiananmen massacre. It provided for 50,000 families to receive British passports. Preference was given to those Chinese most closely associated with the colonial government; confidentiality was guaranteed.

As the South China Morning Post, the colony's leading English language daily, indicated last week, China's call for personal information about civil servants can be seen in a broader context. It "could be seen as a challenge to individuals who would otherwise remain untouched by the (Sino-British) row to come forward and prove their loyalty to one side or the other - a development which could cause personal anguish and bureaucratic instability," the paper said.

Strip away the conditionality from that observation, says Mr Michael Yabuda, a China specialist at the London School of Economics, and you have a pretty accurate description of life in Hong Kong today. "People are being forced to be either pro-British or pro-China - no one can be pro-Hong Kong anymore," he says. Mr Yabuda says this is particularly acute in the universities where no academic can be sure that something he wrote years ago will not be resurrected and used against him in the future.

A taste of what might come was given last week in a com-

mentary by Mr Ching Hom in Wen Wei Po, a Beijing funded newspaper in Hong Kong. Telling Mr Patten to look for saying that people in the colony were worried about the prospects after 1997, Mr Ching said the only people concerned about the handover were a handful of pro-British, anti-China "elements" - they knew "their days were numbered".

Mr Yabuda believes that this polarisation of opinion in Hong Kong is the direct result of the "enormous silence in Sino-British relations" which was created by the row over political reform. He believes that the UK should, and can, make efforts to improve matters. A planned visit to Britain by Mr Qian Qichen, China's foreign minister, might provide such an opportunity. But last week Mr Wang Guisheng, head

of the Chinese foreign ministry's Hong Kong and Macao Affairs Office, said the refusal to hand over the civil servant data would not have a positive impact on Mr Qian's UK trip and proved it was not an appropriate time to schedule such a meeting. Prof Joseph Chang of Hong Kong's City University, a prominent commentator on Sino-British relations, says: "Most of us no longer think in terms of optimism or pessimism because there is no expectation of improvement in relations in the next 900 days," adding that "it's a damage limitation operation now, patch up things as best you can."

Part of the damage limitation would be a change in style by Mr Patten, a politician who rises to the bait all too easily. His handling of the civil service row was illustrative of this. The governor started out in measured terms by calling for the issue to be discussed in private. But Mr Patten could not resist saying Chinese officials should avoid "short-tempered sound bites on television".

"The minimum [the governor] should do is avoid polemics," says Mr Chang. "He has to appreciate that Hong Kong people do not want to see another quarrel. He still retains his parliamentary status. He likes to score points on the other side. This is not a useful approach." The governor must be seen to be trying to secure Sino-British co-operation. If he is not seen to be working hard for that then he will lose popularity. "There is anecdotal evidence that this loss of popularity is happening and Mr Patten risks being seen as part of the problem, rather than part of the solution. But his job of managing Britain's withdrawal from Hong Kong - which will soon call for the skills of the juggler as well as the tightrope walker - is not made easier by a change in economic circumstances. It was easy for local people to ignore the Sino-British row as long as stock and property prices were rising. Now prices are falling and there is a general sense that the economy is slowing, the diplomatic logjam is weighing more heavily on morale."

Tokyo markets count costs of earthquake

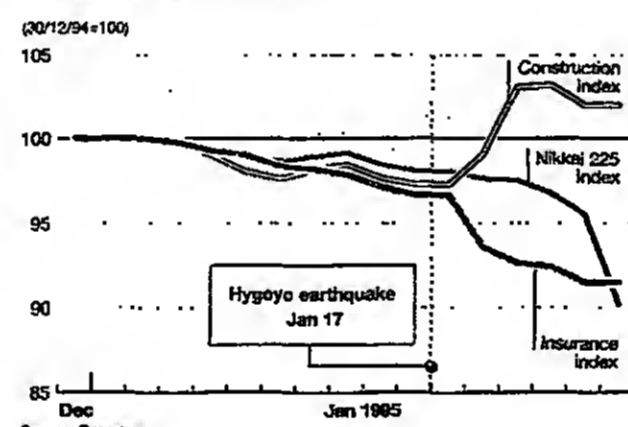
By Gerard Baker in Tokyo

Japanese government officials yesterday expressed concern about the economic impact of the earthquake which devastated Kobe a week ago. As the death toll passed 5,000, Bank of Japan regional branch managers at their quarterly meeting in Tokyo said the quake might prove to be a significant minus factor for the economy for a long period.

Mr Tadao Homma, the Osaka branch manager and a director of the bank, said that "various forms of negative impact are inevitable".

The sharp fall yesterday in Tokyo equity prices of 5.8 per cent - reflected a delayed reaction to the disaster, the worst for 70 years. Initial market reaction last week was calm, with most economists concluding that the overall stimulus to

Tokyo stock market



the economy from additional infrastructure investment might in fact be positive. But by yesterday it appeared that most investors had con-

cluded the benefits were likely to prove very long-term, while the immediate estimated costs of reconstruction continue to escalate daily. Some analysts yesterday put the eventual cost at over ¥5,000bn (£31.7bn), with estimates in some cases well beyond that. Mr Kosaku Inaba, head of the Japan Chamber of Commerce and Industry, was quoted as saying yesterday: "My estimate is that the quake inflicted damage worth more than ¥40,000bn or some 10 per cent of Japan's gross national product."

The money for reconstruction will have to come principally from the government and the corporate sector, since very little of the damaged property was insured. The extra government spending is likely to push up long-term interest rates, as most will be raised in the bond market. The corporate sector's contribution will come from extra borrowing from banks and from liquidation of companies' own financial assets. "The negative effect these

factors will have on share prices was anticipated by foreign investors in the market today and they rushed to get out before everyone else does," said Mr Jason James, equity strategist at James Capel Pacific in Tokyo.

Investor confidence has also been hit by the earthquake, because the scale of the destruction has undermined Japanese confidence in the country's ability to withstand an even larger disaster. "Right now, the Japanese investor's and consumer's psyche is very cautious and the quake has really exacerbated that," said Mr Alan Lacey, equity strategist at Kleinwort Benson in Tokyo.

Plummeting share prices also reawakened fears about the strength of the financial system. Banks held unrealised gains on their equity holdings

as part of their capital base, and analysts expressed concern about the risk to banks' capital from further falls in the market.

The leading banks' capital ratios are not far above Bank for International Settlements agreed guidelines, and if equities fall below 15,000 that margin will be uncomfortably close. But some economists expect the government to assist the market by requiring public institutions to buy shares to prevent a further collapse. "The authorities will have to move in this year to avoid the market in the past to prop up the market if they are to avoid serious problems," said Mr Neil Rogers, strategist at UBS in Tokyo.

Last night Mr Jiro Saito, vice-minister at the Ministry of Finance, said the government was watching the market very closely.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are in index form.

■ UNITED STATES					■ JAPAN					■ GERMANY					
	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator		Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator		Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	
1985	100.0	100.0	7.1	100.0	91.2	100.0	100.0	2.6	100.0	77.1	100.0	100.0	7.1	100.0	89.0
1986	106	100.9	6.9	98.0	96.6	100.6	99.7	2.6	94.3	64.3	100.3	102.2	6.4	98.0	130.4
1987	108.4	106.0	6.1	100.5	95.5	113.8	103.1	2.8	106.3	91.7	107.4	102.8	6.2	104.8	90.2
1988	112.6	110.7	5.4	106.1	100.0	122.6	113.1	2.5	135.6	97.1	110.5	106.3	6.2	116.8	95.5
1989	108.6	112.1	5.2	99.3	98.8	132.5	118.7	2.2	147.0	99.2	114.2	111.4	5.6	218.7	98.6
1990	116.4	112.4	5.4	84.8	95.0	141.7	124.5	2.1	146.5	101.1	123.6	117.2	4.8	164.8	96.5
1991	114.0	110.5	6.6	62.2	99.6	144.6	126.8	2.1	144.2	94.6	130.5	122.8	4.2	270.7	95.0
1992	117.6	114.1	7.3	60.3	104.5	138.9	119.0	2.1	124.2	93.8	127.7	119.1	4.6	260.2	90.0
1993	120.8	116.6	6.7	65.7	110.2	131.8	113.6	2.5	106.6	99.5	122.7	110.6	6.1	198.6	96.9
1994	125.1	125.1	6.7	65.7	110.2										
1st qtr.1994	7.0	4.1	6.5	71.3	110.9	-2.9	-3.0	2.8	101.7	102.7	0.5	-0.0	6.8	104.3	98.7
2nd qtr.1994	6.1	5.4	6.1	74.8	111.0	-1.6	-1.1	2.8	102.9	104.1	-1.7	3.1	6.8	105.2	101.6
3rd qtr.1994	5.8	5.8	6.0	77.0	111.0	-1.2	1.7	3.0	102.8	105.8	-2.3	3.7	6.9	105.4	103.2
4th qtr.1994	5.9	5.9	6.0	77.0	111.0									206.4	
January 1994	4.4	3.7	6.5	66.6	110.5	-2.0	-2.7	2.7	97.0	100.4	0.3	-1.8	8.7	100.1	96.7
February	7.0	3.9	6.4	70.0	110.6	-3.7	-4.3	2.9	97.7	101.2	0.7	1.0	6.8	100.8	97.0
March	9.7	4.7	6.5	74.3	110.9	-3.1	-2.1	2.6	110.7	102.7	0.6	0.7	6.9	100.0	96.7
April	8.7	4.8	6.4	73.5	111.3	-1.9	-2.0	2.8	99.5	103.4	-7.8	2.8	6.9	102.6	100.0
May	5.6	5.6	6.0	76.5	111.3	-3.4	-1.8	2.6	103.8	103.5	2.6	2.3	6.9	100.0	100.0
June	8.6	5.6	6.0	76.5	111.3	-3.4	-1.8	2.6	103.8	103.5	2.6	2.3	6.9	100.0	100.0
July	5.0	5.6	6.1	77.0	111.3	-3.2	-0.5	3.0	106.6	105.5	-3.0	6.4	5.9	100.1	102.0
August	6.0	6.2	6.1	74.9	111.3	-2.1	-3.6	3.0	106.6	105.5	-2.6	1.6	6.6	102.6	102.9
September	6.5	6.7	6.8	74.9	111.3	-1.1	-2.0	3.0	104.2	104.6	-2.0	4.7	6.9	103.6	103.0
October	6.5	6.0	5.7	85.6	110.5	4.6	5.1	10.2	106.2	106.2	-2.0	4.7	6.8	103.6	103.0
November	7.3	5.8	5.5	83.5	110.6	6.3	2.9	102.0	106.8		-3.5	5.5	6.8	208.4	104.0
December 1994	5.6													213.4	
■ FRANCE					■ ITALY					■ UNITED KINGDOM					
	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator		Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator		Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	
1985	100.0	100.0	10.3	100.0	90.0	100.0	100.0	5.8	89.1	101.4	100.0	100.0	11.2	100.0	90.0
1986	102.4	101.1	10.4	107.0	96.3	106.8	104.1	10.4	94.1	105.3	102.4	11.2	116.1	93.9	
1987	104.5	102.1	10.0	111.2	98.2	112.1	106.6	10.1	95.6	107.1	105.5	10.3	141.2	97.0	
1988	107.9	107.3	10.0	135.3	100.9	114.7	107.9	11.3	99.6	114.7	111.9	11.1	81.4	25.0	
1989	109.5	111.3	9.4	160.6	100.8	116.8	118.7	10.9	97.8	120.1	114.0	7.2	122.5	92.0	
1990	110.3	112.9	8.9	153.2	98.1	114.4	116.0	10.3	94.0	121.1	113.7	6.8	97.2	91.1	
1991	110.3	113.2	9.4	100.0	97.3	110.8	115.4	8.6	96.4	119.6	109.2	6.8	96.2	95.6	
1992	110.5	113.0	10.4	109.5	95.8	115.9	115.9	8.2	92.5	120.5	108.0	9.4	66.6	99.6	
1993	110.7	110.1	11.7	90.0	98.8	114.2	112.9	10.2	101.0	124.7	111.3	7.3	78.3	105.6	
1994				102.0						129.0			94.1		
1st qtr.1994	1.3	0.3	12.5	93.6	100.8	-5.7	-0.9	11.7	102.7		3.5	4.2	8.9	94.6	105.6
2nd qtr.1994	-1.2	3.6	12.8	110.6	102.4	5.0	12.6	10.1	101.7		3.8	5.9	9.6	99.0	109.0
3rd qtr.1994	1.4	5.3	12.8	109.0	102.8	8.8	11.8	10.7	101.9		3.4	5.8	9.5	86.9	108.1
4th qtr.1994					102.0						3.1			106.3	
January 1994	0.7	1.2	12.6	82.5	99.3	-6.3	-3.5	n.a.	101.5		3.9	4.4	10.0	94.4	107.0
February	1.1	-0.8	9.8	98.8		-0.1	-3.6	n.a.	102.0		2.8	4.0	9.9	84.5	108.0
March	-2.0	0.5	12.6	103.3	100.8	-2.3	1.0	n.a.	102.3		3.7	6.4	6.7	84.3	108.0
April	-3.8	3.6	12.6	113.6	102.0	-10.5	6.9	n.a.	102.3		4.3	6.1	9.6	87.4	108.0
May	3.1	3.8	12.7	109.8	102.6	-3.6	2.6	n.a.	102.1		4.1	5.2	9.8	88.2	108.0
June	-2.7	3.6	12.6	108.3	102.4	-3.8	5.2	n.a.	101.7		4.1	6.4	9.6	91.3	109.0
July	-2.1	5.5	12.6	105.2	102.3	-2.3	5.4	n.a.	101.4		3.8	5.4	9.8	93.5	108.0
August	3.9	5.5	12.6	109.6	102.4	-4.6	12.3	n.a.	101.8		3.1	5.5	9.5	97.1	108.0
September	2.4	5.1	12.7	111.9	102.6			n.a.	101.9		3.5	6.5	9.4	98.9	110.0
October	-1.3	4.7	12.6	108.3	102.9	n.a.	7.3	n.a.	103.2		3.1	5.6	6.2	105.3	110.0
November	-2.3	4.5	12.6	102.2	102.0			n.a.			5.2	6.2	106.9	110.0	
December 1994	1.7				102.9						5.7				

Race starts to build mobile satellite phones

By Alan Cane in London

An international race to build the first global hand-held satellite phone system has begun in earnest with the completion of equity financing for one of the principal competitors.

Inmarsat, a London-based, satellite communications organisation, said some 39 of its members had pledged \$1.4bn in funding for Inmarsat-P, an affiliate company established to implement the project.

Inmarsat's members include many of the world's leading telecoms operators. Investors in the new project include Daimler-Benz of Germany, Telefonica of Spain, Comsat of the US and KDD of Japan. There is no participation from the UK or France.

The first shareholders' meeting will be held this morning, at which the board of directors and chairman will be elected. A chief executive and senior staff have also to be appointed. The project is expected to cost

\$2.6bn at 1994 prices. The aim is to establish a network of 12 satellites, 10,000km above the earth's surface by 1999, capable of handling communications from hand-held phones from anywhere in the world at a cost of \$2 a minute at 1999 prices.

Inmarsat-P will be competing against a number of contenders including the Iridium consortium led by Motorola, the US electronics company, and Odyssey, a joint venture between TRW, the US aerospace man-

ufacturer, and Teleglobe of Canada. Of the larger contenders only Iridium and Inmarsat-P have so far completed the first round of equity funding. Inmarsat-P is the only consortium in the race not based in North America.

Inmarsat, which pioneered mobile satellite communications with maritime voice and data services in 1982, predicts that conventional cellular services will continue to expand, but that by 2000, only 15 per cent of the world and 60 per cent of the popula-

tion will be within coverage. The organisation argues there will be a substantial demand for satellite hand-held systems from international and domestic business travellers, government employees and customers in rural areas where fixed telephone systems are inadequate.

It says by 2010 there could be 5m subscribers. But analysts believe the market is unlikely to be able to support more than two competing services.

Qatar in US deal to develop natural gas

By Robert Corzine

Qatar yesterday confirmed that it had signed a letter of intent with Enron, the US natural gas company, to develop a \$3bn liquefied natural gas project to supply potential customers in India and Israel.

The project would be the third LNG scheme in the country, which is keen to supplement oil revenues with large-scale gas exports.

Qatar's proved gas reserves account for about 5 per cent of the world's total. They are mostly contained in the giant North Field, the largest single gas field in the world.

Reuters yesterday quoted Qatar officials as saying that the latest project would produce 5m tonnes of LNG a year from early 1999. It said Enron would be responsible for arranging finance, including Qatar's majority equity share.

The Houston-based company said a confidentiality agreement prevented it from disclosing details of the deal. It did confirm, however, that it was looking at two potential markets for the gas, including an Enron power project in India.

Israel is the second market under consideration. The Middle East Economic Survey yesterday reported that Israel had held talks with Jordan on a proposal to build an LNG terminal near Aqaba.

Qatar's gas could then be made available to utilities and industrial customers in both countries. Israeli officials last week said they were interested in Qatar's gas through Enron, but said that whether they would take it depended partly on the price and partly on where to put the receiving terminal.

The original intention was to locate it at Eilat, Israel's Red Sea tourist resort, but this was potentially a problem because of tourism. A site in Jordan would overcome this difficulty. Qatar's other two LNG projects are aimed at markets in East Asia, such as Japan, South Korea and Taiwan. The gas will be sold free on board, meaning Enron will be responsible for shipping and for getting it to its ultimate destinations.

An earlier project to supply LNG to Italy collapsed last year over gas prices.

Ukraine spreads energy sources

By Matthew Kaminski in Kiev

The Odessa oil terminal project approved by Ukraine's parliament last week marks an important step by the second largest former Soviet republic to diversify its energy sources and cultivate trade links.

After a divisive debate over environmental hazards, a new terminal near the deep Yuzhny port will handle 12m-20m tonnes of crude a year once construction is completed late next year. The crude, brought by tankers entering the Black Sea via the crowded Bosphorus Straits, would be refined at Odessa and Kherson, two of Ukraine's six refineries.

With Russian oil output declining and subject to world prices, energy-dependent

Ukraine has a security and economic interest in meeting the country's 40m tonne annual requirement through importing Middle East crude. It currently imports almost 20m tonnes from Russia and produces 4m tonnes domestically.

"We have to look for back-up options," said Mr Valery Cherep, chairman of Ukraine's state committee on infrastructure development. "A country as big as Ukraine cannot sit on just one pipeline."

Construction costs over the next 16 months are expected to hit \$790m. The government maintains the funding will come from the state budget, commercial investors, and international financial institutions or sovereign states.

The terminal will be designed to handle 40m tonnes per year. The expansion plans hinge on a \$200m pipeline from Ankara to the Black Sea re-loading port at Samsun 730km from Odessa. That \$1.5bn project, currently under discussion, would bypass the Bosphorus to bring Iraqi and Iranian oil into Ukraine. Analysts predict that if built, the Samsun pipeline would change regional oil flows.

Mr Cherep said Ukraine would save an average of \$12 per tonne if the oil did not go exclusively through the Bosphorus or the current Russian oil pipeline from Tumen, in Siberia. As total capacity at Ukraine's under-used refineries approaches 62m tonnes per year, government officials also hope Ukraine could develop a

lucrative export market in northern Europe for its surplus refined oil.

Parliament approved the Odessa project after a UK company performed onshore and offshore environmental impact assessments.

With some natural wealth, Ukraine wants to raise oil output from 4m tonnes last year to 7m tonnes by 2000, increase natural gas production above the 17bn cu m last year, and expand the coal and nuclear energy sectors.

Until then, Ukraine must work with its energy creditors. President Leonid Kuchma today meets Russian President Boris Yeltsin to discuss an energy debt and supply agreement for 1995. Ukraine last week reached agreement with



Turkmenistan for 11bn cubic metres of natural gas in 1995, 40 per cent paid for by hard currency and the remainder by

barter. The rest of its 100bn cu m natural gas needs will be covered by domestic production and Russian imports.

WORLD TRADE NEWS DIGEST

South Korea lifts car exports 15.6%

South Korea boosted car exports by 15.6 per cent to 737,900 last year as a result of a large increase in sales in the US, traditionally its biggest market. But the industry's strategy of market diversification suffered a setback, with shipments to Europe stagnating and a sharp drop in exports to Asia.

Exports are becoming more important to the rapidly expanding Korean car industry because of a slowdown in domestic sales, which grew by 9.1 per cent last year. Korea is hoping to almost triple production from 2.3m vehicles in 1994 to 6m by the end of the decade, with half of this amount destined for overseas.

Car exports to the US jumped by 85 per cent to 206,000 vehicles due to economic recovery and introduction of several new models in the market. Exports to Europe grew by only 1.3 per cent to 159,900 vehicles. Although shipments to western Europe rose by 5.5 per cent to 138,600 vehicles, exports to eastern Europe dropped by 19.8 per cent to 21,300.

South America overtook Asia to become the South Korean car industry's third biggest regional market with 129,100 vehicles, an increase of 35.7 per cent, followed by the Middle East with 94,400 vehicles, a decline of 6.5 per cent. *John Burton, Seoul*

Cuba and Caricom build links

Cuba and the Caribbean Community (Caricom) have agreed a wide ranging programme of co-operation on economic and technological issues and will discuss expanding trade links. Agreement follows a two-day meeting in Havana of a joint commission established last year by Cuba and the 13-member Community.

"We made progress in the specific areas identified in the plan of action, such as technological co-operation, biotechnology, culture, human resource development, the environment, meteorology, tourism, transportation, information exchange and information systems," said Mr Edwin Carrington, secretary general of the community.

The creation of the commission last year was criticised by the US, which pressed Caricom countries to insist on political reform in Cuba before increasing trade and economic co-operation. *Carole James, Kingston*

Australia upset at dairy move

The Australian government will lodge an official protest in Washington this week against a US decision to expand its dairy subsidy programme into Australia's key Asian markets. The US agriculture department announced last Friday that up to 114,000 tonnes of milk powder, 87,650 tonnes of butter and 3,850 tonnes of cheese would be eligible for subsidies under its Dairy Export Incentive Programme.

Australian farmers are most concerned about the effect on its skim milk powder exports totalling 150,000 tonnes a year. The Philippines is Australia's largest market for milk powder, accounting for around 43,000 tonnes last year with a value of A\$100m (US\$76m). *Emilia Tegaza, Canberra*

■ Dell Computer of the US and its Japanese subsidiary, Dell Computer KK, will build a new personal computer plant in Penang, Malaysia to cater for the Japanese and other Asian markets. Construction will start later this year at the Bayan Lepas Free Industrial Zone in Penang. *Reuters, Tokyo*

■ Weir Westgarth has won orders totalling \$25m to provide equipment for two combined-cycle power stations and associated desalination plants in Lebanon. The work, for which Weir Westgarth was acting on behalf of a number of companies in Glasgow-based Weir Group, is part of a \$530m contract recently awarded to a European consortium comprising Ansaldo of Italy and Siemens of Germany. *Andrew Baxter, London*

■ France's Alcatel Alsthom is to invest \$300m in China's fledgling telecommunications industry over the next three years to boost its presence in the world's largest market. Alcatel's China orders reached \$1.4bn in 1994, up from \$1.2bn in 1993 and more than double that of 1992. The company announced eight new joint ventures in China in 1994 for telecom transmission, cable, business and rural communication systems and telecom systems support. *Reuters, Beijing*

■ Michelin (Canada) will invest C\$25m (US\$17.5m) to upgrade its three tyre plants in Nova Scotia. The funds will be used to raise capacity and productivity. Michelin moved into Nova Scotia 25 years ago and its operation is tied closely with Michelin's US plants. *Robert Gibbons, Montreal*

■ Brit air, the French feeder airline, has doubled its order of 50-passenger Bombardier regional jet aircraft from three to six, worth a total of \$111m. Deliveries start in June and will be completed in 1996. The jets will replace turbo-props on longer routes. Bombardier has delivered 52 RJs and has firm orders for another 52 worth nearly \$1bn. *Robert Gibbons, Montreal*

■ Carnival Corp of the US has reached agreements with an Italian shipyard, Fincantieri Cantieri Navali Italiani, to construct two cruise ships at a combined cost of about \$650m. One vessel will be built for its Carnival Cruise Line unit, with the other being built for its Holland America Line subsidiary. *Reuters, Miami*

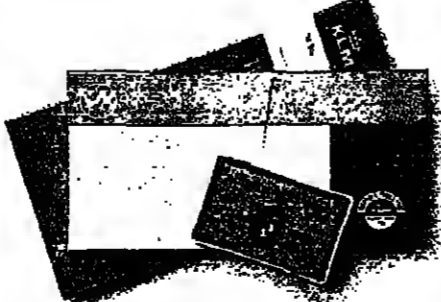
■ Indian industrial group DCM will build a \$27m tyre cord fabric plant in Dubai's Jebel Ali Free Zone. India's SRF, part of DCM, will build the plant and provide \$10m in equity, while State Bank of India and Kuwait's Burgan Bank will provide \$10m in long-term loans. *Reuters, Dubai*



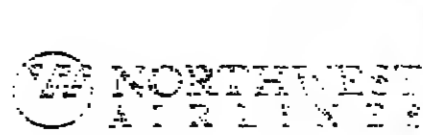
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NEWS: UK

Excavator factory in N Yorkshire will be company's first overseas manufacturing unit

Korean group defies dumping charge

By Chris Tighe and Andrew Baxter

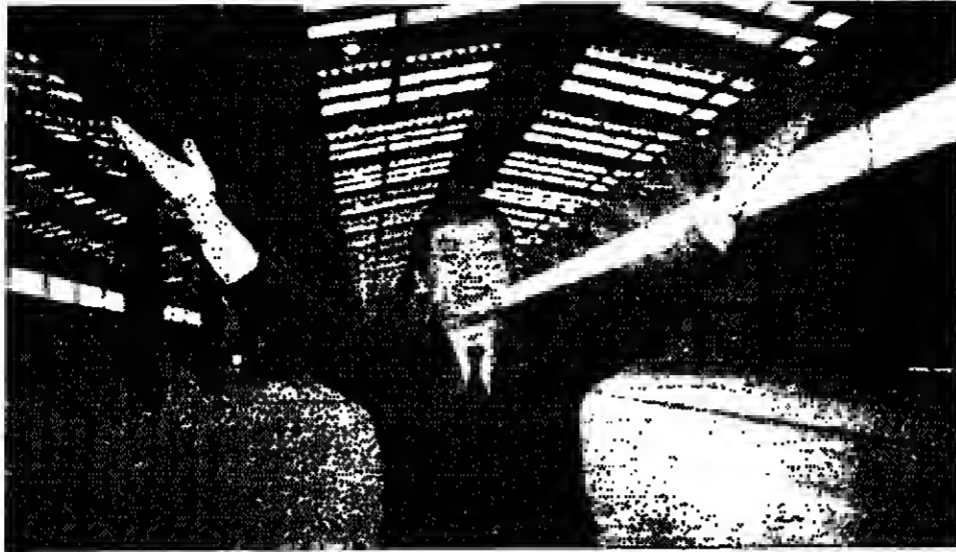
Samsung Heavy Industries, Korea's biggest construction equipment producer, is to establish its first foreign manufacturing plant in a former steel fabrication factory near Harrogate in northern England. The announcement follows Samsung's two-year search for a suitable European

Koreans to accelerate plans for setting up excavator factories within the European Union. Earlier this month Hyundai said it would open a plant at Geel in Flanders, while Daewoo plans to expand production at its Mons, Belgium, factory.

Production of 21-tonne crawler excavators at the new English factory will start later this year. An initial workforce of 100 is due to rise to between 500 and 600 by the year 2000. The £10m (\$15.9m) investment is the first by a Korean company in the Yorkshire and Humberside economic region. It follows the announcement by the Samsung Group in October 1994 of plans for a £450m electronics complex at Wynyard in north-east England on which construction has just started.

In common with its Korean rivals, Samsung is starting cautiously at Harrogate, with initial production of 500 excavators a year. But this could rise to 2,000 excavators and other machines by the year 2000, further exacerbating competitive pressures in the European market.

Samsung has bought freehold the 20,000 sq m factory



Cho Ki-Jeh, managing director of Samsung Heavy Industries, at the company's factory in England

and its surrounding 18ha greenfield site. The plant, barely five years old, has been vacant since Octavius Atkinson, a Taylor Woodrow subsidiary, closed in April 1993. The Korean company is also trying to secure an option for 20ha of adjacent land owned by a private trust.

Mr Cho Ki-Jeh, managing director of overseas marketing

at Samsung's construction equipment division, said the plant would be an assembly operation at first with machining and other manufacturing activities added later. It would start by serving the European market and later also the US, the Middle East and other areas.

Unusually for a significant inward investment into the

UK, Samsung's site does not qualify for regional selective assistance. Samsung said the advantages of the site, near the A1 road from London, included infrastructure and labour availability. Mr Eric Wright, chairman of the Yorkshire and Humberside Development Agency, predicted that more Korean companies would come to the region.

Single EU presence suggested for Ireland

A draft of the keenly awaited UK-Irish framework document proposes that a cross-border institution should help develop a joint approach to the European Union for the island of Ireland. David Owen writes from Westminster.

This emerged yesterday as Mr John Major, the UK prime minister, offered further reassurance to pro-British Unionists in Northern Ireland that the two governments' proposals did not include provision for joint authority over Northern Ireland's affairs.

The prime minister told a meeting of municipal leaders from Northern Ireland that joint authority had "never been our intention", and the need for consent to UK-Irish plans remained "paramount".

This gathering was preceded by an hour-long meeting between Mr Major and Mr James Molyneux, the Ulster Unionist leader who is an immensely influential figure in efforts to construct a durable settlement in the province. The meeting came after Mr Molyneux, whose acquiescence in the peace process has been an important factor in progress so far, had added his voice to mounting unionist concern about what the document contains.

Some leading Ulster Unionists have raised the prospect of withdrawing support for Mr Major, leaving the government at the mercy of the nine rebel Tory European MPs.

Last week, the unionists demonstrated their parliamentary power by extracting a pledge before a Commons vote on EU fishing rights that marine fishing would be exempt from cross-border co-operation.

Yesterday's indication of the joint stance on the EU will do nothing to allay unionist concerns. The draft envisages a continuing role for the proposed cross-border institution in shaping the island of Ireland's approach to the EU.

The document might be unveiled next month at a summit between Mr Major and Mr John Bruton, prime minister of the Irish Republic.

The two governments hope the framework document will provide the basis of a lasting political settlement in the province. It will be the starting point for talks involving Northern Ireland's main constitutional parties. Mr Major said yesterday there was "no question" of imposing a blueprint on the parties, however.

Joe Rogaly, Page 14

UK NEWS DIGEST

London warned of threat to 'world-class' city

London could lose its status as a world-class city if the British government does not invest in its infrastructure, business and political leaders warned yesterday. Without heavy funding of public transport, housing, the environment and educational training, London would fail to attract business and industry which would locate elsewhere in Europe.

The warning came as a coalition of nine London organisations launched the London Pride Prospectus, which sets out a view of a better quality of life in the capital beyond the year 2000. It also called for extra government funds, claiming that in 1993 London paid £58m (\$12.7bn) more in taxes than it received in public investment.

Councillor Miles Young, leader of Westminster City Council, said: "Within Europe there are cities that are looking to knock London off its perch. Paris, with its economic development programme, is poised itself to take business enterprise away from London. So is Frankfurt, and in 10 years time Berlin will be assuming the characteristics of a world-class city." John Authers, London

Economic growth continues

Britain's economy continued to grow at a fast rate in the final quarter of last year, boosting speculation of a further rise in bank base rates next month or in March. The Central Statistical Office yesterday estimated that gross domestic product, the total of goods and services produced in the UK, rose by a seasonally adjusted 0.8 per cent in real terms between the third and fourth quarters, increasing output in the final 1994 quarter by 4 per cent compared with the same three months the year before.

The figures marked the 11th quarter of growth since the trough of the recession. They slightly exceeded City expectations, although the latest quarterly growth rate was unchanged from the previous three months, and the year-on-year increase in GDP slowed from the third quarter's 4.1 per cent.

National output in 1994 as a whole was estimated at 4 per cent higher than in 1993, giving the UK its best year of growth since 1988. However, last year's growth was above the 2 per cent/2.5 per cent annual rate that is considered sustainable over the long term without stimulating inflation.

Peter Norman, Economics Editor

Gas chief defends pay rise

Mr Cedric Brown, chief executive of British Gas, has written to employees defending his 75 per cent pay rise in the hope of pre-empting criticism he expects today when he is examined by members of a House of Commons committee. In his letter, which British Gas employees will receive this morning, Mr Brown says: "They [the employment committee] will ask me about my pay and I will be answering their questions openly and fully, because the background to the issue has yet to be fully understood".

It continues: "I will stress that unless we recruit and retain the right people, the right decisions will not be made about the future of our company". This is the first time Mr Brown has discussed the rise in his base salary from £270,000 to £475,000 since it was disclosed at the end of last year. The letter also indirectly blames the government's policy of introducing greater competition to the gas market for the company's current programme of 25,000 redundancies.

Meanwhile, the British government sought to stem further controversy surrounding British Gas yesterday by giving an assurance that special services for the elderly and disabled would not be sacrificed under the liberalisation of the domestic market.

Robert Peston and John Kampfner, Westminster

Army reviews aircraft project

The British Army is considering the cancellation of a project for an unmanned aerial vehicle on which £227m (\$364m) has already been spent, according to a magazine report published today. The reconnaissance aircraft, known as the Phoenix UAV, is running six years behind schedule and project costs have more than doubled since the development and production contract was signed in 1985, says a report in Flight International.

The magazine says the Ministry of Defence has launched a high-level review of the project which would decide in the middle of this year whether or not to abandon the project, in which the prime contractor is GEC-Marconi. Defence ministry officials declined to confirm or deny the report, but the ministry has already acknowledged that there are technical problems with the project.

Bruce Clark, Diplomatic Correspondent

Fraud Office 'should stay'

Britain's Serious Fraud Office should be retained in its present form, despite widespread criticism of its performance, an official government working party is set to recommend to ministers. The working party, which will report to Sir Nicholas Lyell, the attorney-general, is expected to recommend that the SFO should be kept as an independent organisation and enlarged, taking over a number of fraud cases currently handled by the Crown Prosecution Service.

The decision, if finally approved by ministers, will be welcomed by SFO staff who have consistently argued that criticism of the office's track record has been excessive and unfair - a view shared by the attorney-general. It also reflects the feeling among ministers and within the legal profession that whilst criticism of the SFO has been plentiful, few constructive suggestions have been made about how the prosecution of fraud can be improved.

John Mason, Law Court Correspondent

Weather boosts vegetable prices

The price of vegetables has risen sharply in past weeks because of shortages caused by last year's unusual weather. Industry officials say further rises may be in store. The average farm-gate price of potatoes has risen in £207 (£229) a tonne compared with £70 at the same time last year, according to the Potato Marketing Board.

The potato shortage was caused by a drought last summer, which led to a smaller crop, and farmers planting fewer potatoes. For three years oversupply has produced poor returns. Potato production last year was down 700,000 tonnes on the 6.8m tonnes produced in 1993, said the board.

Alison Millard, Farming Staff

BA treated pilots 'unfairly'

More than 200 pilots who lost their jobs when British Airways took over small regional airline Dan Air two years ago were unfairly dismissed, an industrial tribunal ruled yesterday. Three hundred and eight pilots were dismissed, but only 202 took their cases to the industrial tribunal, which will decide on their compensation this week. The maximum award in an industrial tribunal is £10,000 (£15,900).

Lisa Wood, Employment Staff

Girls ahead in school tests

The first-ever publication of national curriculum test results in England and Wales yesterday produced new evidence that girls are out-performing boys academically.

These are the broadest standardised figures yet made available for seven- and 14-year-olds, and they confirm trends already revealed by league tables of results in GCSE exams, taken at 16. However, the figures are marred by the fact that only 23 per cent of secondary schools, and 55 per cent of primary schools, reported their results following the boycott of the tests by teachers' unions. John Authers

Minister demands faster shift from state ownership

Treasury building may transfer to private sector

By Andrew Adonis

Public Policy Editor

Refurbishment of the Treasury's headquarters on Whitehall in central London is to be carried out through the private finance initiative, Mr Kenneth Clarke, chancellor of the exchequer, will announce today. He hopes to accelerate the government's flagship policy for boosting investment by the private sector in state projects.

"I foresee that before many years private contracts will be the usual way of meeting the government's capital spending requirements," he said yesterday. The initiative is designed to shift responsibility to the private sector for financing and managing capital investment projects to provide new or upgraded public services.

Ownership of the Treasury's buildings on the corner of Whitehall and Parliament Square may pass to the private sector, with the government taking a long lease. Mr Clarke will tell a conference on the initiative that he intends to

The Private Finance Panel, a ginger group established by the government 14 months ago under the chairmanship of Sir Alastair Morton, hopes to counter criticism by displaying momentum in the public finance initiative. Sir Alastair is co-chairman of Eurotunnel, the company which operates the Channel tunnel between England and France. Today the panel will unveil a list of nearly 700 PFI projects valued at a total of £21bn (\$32.5bn) across government departments, ranging from hospital

scanners and imagers to the upgrading of the West Coast railway line between London and Scotland. It involves a complete culture change," said Sir Alastair. New markets, such as the provision and operation of private prisons, are developing. The initiative is also intended to stimulate public/private partnerships, notably in local government where city and district councils have plenty of assets, but not always the entrepreneurial zeal to make the best use of them.

reflecting in a hostile report last week from the House of Commons Treasury and civil service committee, which claimed that important aspects of the initiative remained ill-defined. Mr Clarke believes that progress in recent months - notably a contract between London Underground and GEC-Alsthom to provide new trains for a notoriously inefficient Underground line - have brought the initiative to take-off point.

He will also claim that the government is on target to sign contracts worth £5bn under the initiative this year - up from £5bn forecast in last November's Budget.

So far the initiative has made slow progress. There has been widespread scepticism among potential bidders, and it is not going to protect the use of cranes. European agriculture ministers also backed an early review of the use of veal crates throughout the continent. Mr Franz Fischer, the new agriculture commissioner, said the review would be completed "as rapidly as possible". If pressed, he said, that meant "within this year". Mr Waldegrave said that the British drive to ban the use of crates, which are used to raise white veal through-

out the continent had received support from Sweden, Denmark, Germany, Austria and Finland, adding that none of the other 14 agricultural ministers had spoken against the UK proposal during the meeting. A senior council official pointed out that France, the largest EU producer and consumer of veal, had not spoken against the proposal at the meeting, although it noted that any new measures should take account of the economic interests of member states.

Mr Waldegrave, who has faced a public outcry in Britain over the shipment of British calves for veal production in small crates in other EU countries, called on protesters to "pile in behind the progress" that had been made in Brussels. Although he condemned violent protesters, he said it would be necessary to maintain the political momentum to ensure the review was not delayed.

Mr Waldegrave said he had also felt more optimistic on the issue of the

Industrialists urge expansion in trade with Iraq

By Jimmy Burns

More than 70 British companies last night attended a private meeting in central London backing fuller trade ties with Iraq in spite of the UK's support for the continuation of United Nations sanctions against President Saddam Hussein's regime.

The meeting was organised by a commercial lobby group, the Iraqi British Interests (IBI) Group, which claims a growing membership and the support of Conservative members of parliament.

Companies attending were drawn from a wide cross-section of sectors, indicating a growing interest in Iraq among businesses whose contacts are with Baghdad are restricted by sanctions. They included British Steel, Dunlop International, Rothmans Exports, Trafalgar House, Thames Water, Fisons, Amersham International, De La Rue and Boots.

Among other companies attending were United Projects, a trading company that

before the Iraqi invasion of Kuwait was exporting up to £15m of goods to Iraq per year. There was also a representative of W.H. Atkins, an engineering consultancy group that helped design and construct a missile installation bunker for the Iraqis during the 1980s.

Mr Stephen Crouch, a director of the IBI group, said that British commercial interests in Iraq risked losing out to European competitors such as France, which - he alleged - was taking a more relaxed attitude towards sanctions by signing forward contracts with Baghdad.

He criticised the Foreign Office for its support for a continuation of the sanctions regime, and claimed that some sectors of Britain's Department of Trade and Industry were "sympathetic" to the views of his group.

"We can't afford to lose what before the Gulf War was an important market for us," he told the meeting. "We feel it is important to maintain contact with the Iraqi state."

Veal crates 'doomed' across Europe, claims minister

By Caroline Southey in Brussels

Britain said last night that it had won support from several EU member states for an eventual ban on the use of veal crates across Europe.

"Veal crates are doomed," Mr William Waldegrave, the British agriculture minister, said after a meeting of the agricultural council in Brussels. "The days of veal crates are numbered. My advice to farmers in the business is to get out now. This coun-

cil is not going to protect the use of crates."

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Mr Waldegrave said he had also felt more optimistic on the issue of the

transport of live animals, although a battle still lay ahead on this front. British farmers export 500,000 calves a year, worth 100m, to the Continent, most for veal production in crates.

Mr Douglas Hurd, the foreign secretary, yesterday signalled a tough UK line on majority voting at the European Union's 1996 intergovernmental conference as Mr David Davis, a mildly Eurosceptic minister, was named UK representative on the organising committee.

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DECEMBER 13
Causes and prevention. Smoking. Diet and food supplements. Sunshine and skin cancer. Chemicals and other environmental causes. Vaccines against cancer-causing viruses. Antibiotics to prevent stomach cancer.

FEBRUARY
Chemotherapy. Drugs to kill rapidly dividing cancer cells. Reducing multi-drug resistance. Anti-nausea drugs and other ways of reducing side effects. Hormone-based treatments. Photodynamic therapy. Herbal and alternative remedies.

MARCH
Radiotherapy. X-rays. Gamma rays. Neutron beams. Heavy ions. Magic bullets. Antibodies and fusion toxins aimed at cancer cells.

APRIL
Genetic treatment and other biotech approaches. Gene therapy and antisense. Cell migration and adhesion. Apoptosis and cell suicide. Immunostimulants. Cell growth factors. Interferons and interleukins.

Early detection of cancer means a higher survival rate for patients. Clive Cookson and Daniel Green continue a series by looking at the latest screening techniques.

Detectives on the case

The sooner cancer is diagnosed, the better the chances of curing it. That simple rule has stimulated a huge research effort to detect early signs of the disease before the patient feels any symptoms.

There are two parts to the strategy – both of which are, rather confusingly, sometimes called "screening". The first is to identify individuals who have inherited a high risk of developing cancer. Traditionally, researchers have done this through tracing family histories; such studies can tell people that they may be at risk. Research into cancer genes is producing tests to pinpoint exactly who is and who is not at high risk from particular forms of inherited cancer (see article below right).

The second stage is to spot early signs of the disease itself, so that treatment can begin. A wide variety of imaging and chemical tests are being developed for this purpose (see article above right).

Genetic testing will be carried out first on volunteers from known cancer families. Screening of the general population for cancer genes still lies a long way in the future. The tests themselves have to be made faster, more convenient and more reliable than the ones available experimentally today – and social and ethical issues must be addressed.

One of the most emotive issues will be the attitude of health and life insurance companies to genetic screening. This may not make much difference in practice to people known to have a family history of cancer, who may already have to pay higher insurance premiums. But the threat of "genetic discrimination" resulting from positive tests would be a huge disincentive to population screening.

Some cancer specialists feel that they are being pushed too quickly towards genetic screening, even for cancer families. "Ideally we should wait 10 years before we begin screen-

ing, because there still isn't very much we can do for someone who has a breast cancer gene, for example," says Karol Sikora, professor of clinical oncology at the Hammer-smith Hospital, London. "But there is tremendous commercial pressure to get these tests on to the market, so we can't wait. We must start to evaluate the services that will be needed by those who are at high risk."

The second type of screening – non-genetic testing for early signs of disease – is much further advanced.

The showpiece is cancer of the cervix. The UK national cervical screening programme, started in 1988, now gives Pap smears to 80 per cent of women in the target 20-64 age group. (The test detects abnormal cells in the cervix.) The programme is credited with reducing deaths from cervical cancer at a time when the underlying incidence of the disease is rising; screening may be saving as many as 2,000 lives a year in the UK.

But screening for other cancers is controversial. Many specialists doubt whether the potential benefits justify the costs of screening and the anxieties aroused in patients.

"It's no good having a screening programme unless you can do something about the disease when you diagnose it – and in a lot of cases you still can't," says Sir Richard Doll of the Imperial Cancer Research Fund unit in Oxford. "For breast cancer, screening is worthwhile for women over 50 but there is no clinical evidence that it does any good for younger women."

The American Cancer Society recommends checking men over 50 for prostate cancer through an annual blood test and quick physical exam. But a study by the University of Toronto, published last autumn, suggested that mass prostate screening might be counterproductive because side-effects of treatment would outweigh any saving of lives.

Tumours look different from healthy tissues. Some show up on X-rays and through other imaging techniques, and some trigger the production of "markers" such as hormones which can be detected in blood tests.

Doctors use both approaches for diagnosis and to monitor the effectiveness of treatment and detect any recurrence of the cancer.

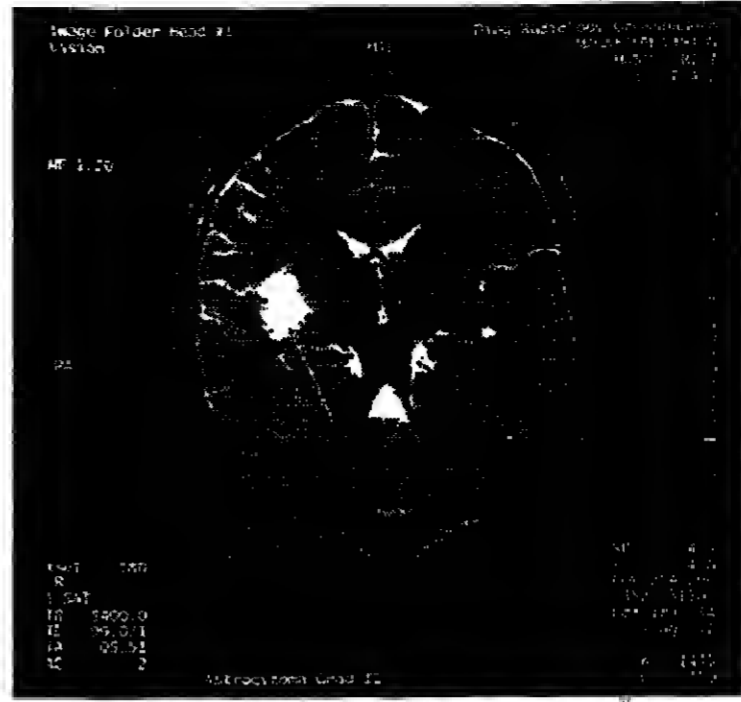
The radiologist has a battery of imaging tools to choose from. Each has pros and cons in cancer.

● **Conventional X-rays** remain important in cancer detection in opaque bones and virtually transparent lungs. But they do not show soft tissues well and so are not suited to studying densely packed areas of the body such as the head and neck.

● **Ultrasound**, like radar, uses the echoes from high frequency vibrations to produce a moving image of the inside of the body. The equipment is portable, relatively simple to use and good at detecting tumours in solid parts such as in the liver and ovary. The latest machines use the Doppler effect to detect the motion of blood in vessels that feed tumours. But ultrasound images are impaired by bone and air. Like conventional X-rays, the viewpoint for the image is limited to being outside the body.

● **Computed tomography (CT)** is X-ray information processed by a computer to give detailed cross-sectional images inside the body. The clear pictures provided by CT have given the technique a central role in cancer medicine, especially with the development of injectable "contrast agents" that can pick out internal features. Nevertheless, it can be hard to distinguish between benign and malignant tumours and between different kinds of soft tissue.

● **Magnetic resonance imaging (MRI)** pictures are better than CT at



A clearer picture: this MRI scan of the brain shows a tumour pointed out by an arrow

The image of a diagnosis

distinguishing between different kinds of soft tissue such as muscle and skin. MRI works by aligning the water molecules in a patient's body with a vast magnetic field. A burst of radio-waves then knocks the molecules out of alignment. As they snap back into position, the molecules give off energy which is picked up

by detectors and turned into an image with computers.

● **Positron emission tomography (PET)**, still largely a research tool, has potential in cancer treatment. A patient is given a material, often glucose, that feeds dividing cells such as those in a fast-growing tumour. The glucose is radioactive and emits

sub-atomic particles called positrons, or anti-electrons. An anti-electron quickly encounters a normal electron and they disappear in a flash of energy which is picked up by detectors and, once again, turned into an image with computers.

Impressive as these techniques are, none is yet powerful enough to give doctors a complete analysis of a cancer. A diagnosis based on imaging must normally be confirmed with a biopsy – the extraction of a sample of the suspect cells for laboratory analysis. The biopsy also reveals details about the cancer cells that cannot be seen in images. The biopsy needle is often guided to the right place with the help of imaging. The scans show whether a tumour is capable of surgical removal – if it has spread, it is not – and help the surgeon plan the operation.

After treatment, imaging is used to see how the tumour is responding to the treatment. With tests over time it can show whether the tumour is beginning to grow again.

Here, imaging overlaps with the use of cancer markers. Marker tests are inconclusive as diagnostic tools because false negatives and positives occur. Some malignant tumours do not make markers and some benign ones do. But once a cancer is confirmed, the presence of markers such as prostate specific antigen and carcinoembryonic antigen for prostate and bowel cancers respectively, help monitor the progress of treatment and can alert the doctor to a relapse.

Both imaging and marker detection are continually refined. New markers may improve the sensitivity of the technique. The latest MRI and CT scanners can show moving pictures, while new contrast agents promise to show internal features that were previously hidden.

DG

Pressure grows for genetic testing

The number of known cancer genes has been increasing exponentially since the original one was identified 20 years ago. The past year's bumper crop of discoveries, including the first breast cancer gene BRCA1, brings the tally of genes implicated in human cancer to about 50.

They fall into two categories. "Oncogenes" are natural molecular accelerators in which mutations cause runaway cell growth.

"Tumour suppressor genes", in contrast, normally put the brakes on excessive proliferation; when mutations put them out of action, cancer can get started.

All the new information will make it possible to screen people for genetic predisposition to a wide range of cancers. Researchers esti-

mate that roughly 5 to 10 per cent of common cancers are triggered by inherited mutations; the remainder result from genetic changes in the course of an individual's lifetime, caused by environmental factors and random changes during cell division.

No cancer gene tests are yet in routine clinical use, however, and – despite much recent publicity about their implications – researchers say several important issues will have to be addressed before widespread genetic screening can be introduced.

Some are technical problems about developing simple and accurate tests. Others are social and political, including the risk of "genetic discrimination" by insurers and employers.

The technical challenge of developing a test for inherited cancer

genes is much greater than for simple genetic diseases, such as cystic fibrosis or Huntington's chorea, in which most or all cases are caused by a single mutation on a single gene.

"We are finding that disease-causing mutations in cancer genes are diverse and scattered all along each gene," says Mike Stratton, of the Institute of Cancer Research and Royal Marsden Hospital in London, who is a leader in the international search for breast cancer genes.

His colleague Rex Bailes points to the test which ICR offers experimentally for Li-Fraumeni Syndrome, a rare disease caused by inherited mutations in the p53 tumour suppressor gene. "We quote at least three months to get a result," she says. "The procedure for the breast

cancer gene BRCA1 is likely to be even more difficult because it is 10 times larger than p53."

Even so, Stratton expects a test for BRCA1 to be available commercially within 18 months. "But people shouldn't expect it to be quick and simple, like a pregnancy test."

Companies working on genetic tests include Myriad of Utah (breast cancer) and Cellmark Diagnostics of the UK (colo-rectal cancer).

In preparation for the time when genetic tests become widely available, the Royal Marsden and other cancer centres are planning screening services for people whose family histories show they may be at risk. Screening the general population is a more distant prospect.

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INTERNATIONAL PEOPLE

RTZ fills gap in minerals

■ Gordon Sage, 47, chief executive of RTZ Borax, assumes responsibility for the group's industrial minerals businesses replacing Ian Strachan, 51, who is to be chief executive of BTR. Sage joins the RTZ board on April 1.

■ J Roland Williams, 55, co-ordinator natural gas and coal for Royal Dutch Shell, chairman and chief executive of Shell Australia. He succeeds Ric Charlton, retiring in April after four years in the post.

■ Peter Hellman, 45, president and chief operating officer of TRW. Hellman, TRW's former chief financial officer, replaces Ed Dunford who has retired after 30 years with TRW. Hellman was general manager of crude oil supply and trading at BP America before joining TRW in 1989 as treasurer.

■ Marco Molinari, 35, Good-year's European sales and marketing director, is appointed chairman and managing director of Goodyear Great Britain. Swedish-born Molinari replaces William B. Hirsch who is returning to the US.

■ Glenn H. Gettler, 52, former chief financial officer of USLICO Corporation, chairman and chief executive of Dallas-based Southwestern Life Corporation. He replaces Robert L. Beisenherz who resigned last October.

■ Christer Forström, 51, after 25 years with Electrolux, takes over as managing director of TV4, Sweden's main commercial TV channel, on April 1. Lars Weiss, TV4's programme director, has been appointed deputy managing director.

■ Jeremy Seddon, 53, a director of Barclays' BZW investment banking division, chief executive for Barclays Bank and BZW in India. He will be based in Bombay.

■ James W. Conroy, a former executive vice president of the Inter-American Development Bank, senior vice president ICF Kaiser International. He will manage ICF Kaiser's offices in Latin America.

■ Mohsen Fahmi, 39, a former chief investment officer at the World Bank, head of leveraged investments unit at Salomon Brothers Asset Management in London. Fahmi joins Salomon from Goldman Sachs.

■ Susan Cook, Tandem Computer's vice president human resources, is moving to Eaton

Corporation in the same role. She replaces John D. Evans who retires in June.

■ Andrew Pinder, 47, Prudential Assurance's director of information technology, to head Citibank's European operations and technology.

■ William C. Hunter, 45, a vice-president at the Federal Reserve Bank of Atlanta, senior vice president and director of research at the Federal Reserve Bank of Chicago from March 1.

■ Carl Painter, 49, head of BICC's North American cable-making business, a director of BICC.

■ Dan Tyree, 46, chairman and chief executive of Lehman Brothers Europe, to be chairman and chief executive of Lehman Brothers Asia. He replaces Jim Carbone, 42, who is returning to New York to head Lehman Brothers Global Asset Management. Bruce Lakeland, 50, head of Lehman's Multiple Trading Ventures Group, takes over as head of Lehman Brothers Europe.

■ Mathieu Giovachini, previously with Bear Stearns in Hong Kong, to head Standard Chartered's Singapore-based derivatives trading team covering the Asia Pacific region. Bo Van Wijk, previously with Phibro Energy and Chemical Bank, to be head of commodity derivatives in London.

■ Danforth Austin, 48, a former Wall Street Journal reporter, as general manager of the Wall Street Journal. He replaces Kenneth Burenga, president and chief operating officer of Dow Jones, the WSJ's parent, Karen Elliot House, 47, a former foreign editor of the WSJ and currently vice president, international, succeeds James H. Ottaway as president of the international group.

■ Dorothea Cocco Palsio, 47, vice-president information services, to be president of Dow Jones Business Information Services. All three will report to Burenga.

International appointments

We hope to create in these columns a comprehensive listing of senior appointments in international companies. Please fax announcements of new appointments and retirements to +44 171 873 3826, marked for International People. Set fax to 'fine'.

Net book ruling is overturned



The European Court of Justice last week allowed an appeal brought by the UK Publishers Association against a 1992 ruling by the Court of First Instance upholding a European Commission decision condemning the FA's resale price maintenance agreements for books.

According to the CFI's judgment, the "net book agreement" lay down standard conditions for the sale of books at fixed prices. These "net" books may not be sold to the public at less than the net published price. The conditions apply to all sales in the UK and Ireland by a wholesaler or retailer when the publisher decides to market a book at a net retail price.

The Commission's 1988 decision found the agreements infringed European competition rules, to the extent that they covered the book trade between member countries, and refused the PA's application for an exemption.

The Commission said the restrictions imposed by the agreements were not indispensable to the attainment of the stated objectives, namely avoiding a decrease in the number of stockholding booksellers, a fall in sales, smaller print runs and hence a rise in book prices.

The PA appealed against the CFI's rejection of its case that the Commission's decision was not properly reasoned. The ECJ set aside the CFI's judgment. The Court said it was wrong in law since it did not review properly the Commission's assessment that the restrictions of competition resulting from the NBA were not indispensable.

In particular, the CFI failed to take into account the consequences of the existence of a single language area forming a single market for books in Ireland and the UK. In so doing it ignored the need to determine whether any negative effects which abolition of the agreements might have on the Irish market were relevant to the assessment of whether the restrictions were indispensable in the context of the Community, rather than the national, market.

Moreover, the ECJ found the CFI's reasoning was marred

with regard to the distinction between the national and intra-Community effects of the NBA. The ECJ said the CFI's view that consideration of the economic benefits of an agreement was limited to those that occur only on the territory of the member countries where the agreement parties are established and not of others was incompatible with Community objectives.

The ECJ also said the CFI failed to rule on the PA's contention that the past findings by the British Restrictive Practices Court (RPC) that the NBA was indispensable applied to the international book trade and to sales in national territory of books produced nationally, which the Commission ignored.

The Court went on to overturn the Commission's decision, accepting the PA's two arguments that the decision was wrongly reasoned. Both showed the decision failed to take proper account of the PA's argument concerning the negative effects of the decision on intra-Community trade and in particular the book market in Ireland.

First, the ECJ held that the decision contained no explanation of why the decisions of the RPC were not relevant with respect to the indispensability of the restrictions of competition in view of an existence of a single language area formed by the British and Irish markets.

Second, the Commission's reliance on its 1988 decision in the Dutch Books case was manifestly inappropriate and constituted a defect in the statement of reasons.

In that case the Commission had said that a collective resale price maintenance system involving the restriction of competition between member countries was not indispensable for achieving its stated economic benefits.

But the ECJ said that the Commission's decision in the Dutch Books case was manifestly inappropriate and constituted a defect in the statement of reasons. In that case the Commission had said that a collective resale price maintenance system involving the restriction of competition between member countries was not indispensable for achieving its stated economic benefits.

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Moreover, the ECJ found the CFI's reasoning was marred

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LOT No. 4 - A 158 bedroom hotel, 3 star category, located in the centre of the city of M'sila, in the process of being completed.

LOT No. 5 - Hotel Louss, 150 bedroom, 3 star category, located in the centre of the city of El Oued, completed, ready to be operating.

1. Interested parties may attend the Secretariat of the Temporary Privatisation Commission, c/o Tourism and Handicraft Ministry, rue des Frères Ziata, El Mouradia, Algiers, to collect the specification, on payment of a non-refundable amount of 1000 Algerian dinars for each lot.

2. Interested parties may bid for one or several lots.

3. Offers must be sent in a double envelope to the following address:

COMMISSION PROVISOIRE DE PRIVATISATION, MINISTERE DU TOURISME ET DE L'ARTISANAT, RUE DES FRERES ZIATA, EL MOURADIA, ALGIERS.

The inner envelope must be anonymous and only show the words:

"SOUSSION POUR L'ACQUISITION DE L'IMMEUBLE A USAGE D'HOTEL ... LOT No NE PAS OUVRIR"
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4. Offers must be received no later than March 15, 1995 at noon.

5. The envelopes will be opened on the 27th March 1995 at 10 am in the offices of the Tourism and Handicraft Ministry, rue des Frères Ziata, El Mouradia, Algiers. In the presence of a bailiff and of the tenderers or their duly entitled representatives.

مكتبة من الكتب

ARTS

To be taken on Trust

William Packer reviews three exhibitions with a purpose

Sooner or later, any conscientious critic is likely to find himself roped into arty good works of one sort or another: a turn perhaps on an advisory committee, or exhibition jury. He might even be asked to contribute something of his very own, for the good of the cause. We all do our bit, and it just so happens that three of my own pet projects have exhibitions on in London at this moment.

This, we know, is the year of the National Trust's centenary, and *Centenary*, the show now at Christie's, Kings St, London SW1 until February 2, in which contemporary British artists celebrate the achievement of those 100 years, seems straight-forward enough. But there is more to it than that, since its purpose is also to raise funds for the trust's Foundation for Art. I have been a member of the foundation's committee almost since its inception some 10 years ago.

Fund-raising? For the National Trust? I can almost hear the eyebrows crinkling. But the need is simple enough. With the trust being in principle a charity dedicated to the protection and conservation of its properties, for it to put any of its revenues from subscription and bequest towards new, indeed modern art, could well be construed as misuse.

Yet artists through the ages have been responding to the landscapes of which the trust is now the custodian, and its great houses are stuffed with work that was manifestly modern art in its time. And the life-span of the trust itself represents by now a large proportion of that of many of its houses. To suppose that the history of a property is sealed with its accession to the trust, or that the response of artists thereafter is of no account, is clearly nonsense.

The National Trust's Foundation for Art is an enabling body with its own resources, encouraging artists of all kinds to work with the trust, arranging exhibitions and commissioning particular works for its collections. All such approaches, and the full variety of the trust's holdings, are represented in this exhibition, from Jeffrey Camp's vertiginous view from

Beachy Head, to the delicate roofscape at Chastleton by Gus Cummins, and Maggi Hambling's abstracted sunrise over the Orwell Estuary, with affectionate satires from Glen Baxter and Patsy Simmonds thrown in for good measure.

The artists range from the established to the aspiring, the abstract to the figurative, the young to the old, from such as Adrian Berg, Carol Weight and Gillian Ayres to Sarah Armstrong-Jones and Joy Garvin. They all understand, and have come to support in the most practical fashion, what the foundation is about and has achieved in its short life. It is now for the public to do the same.

The annual Hunting Prize Exhibition, now at the Royal College of Art, Kensington Gore, London SW7 until January 29, was set up some 15 years ago, since when it has developed into one of the principal fixtures of its kind in the art calendar. For the past few years, I have been a member of its selection panel. It is not the largest of such prizes but, at £20,500 overall and £10,000 to the winner, is not insignificant. Entry is open to paintings, prints and drawings, up to three per artist, and it now attracts a submission of nearly 3000 works.

Its constituency is neither avant garde nor reactionary, though neither is excluded. All is judged on its merits, and if there is comparatively little abstraction, that is only because comparatively little was submitted, to our disappointment - an open exhibition, after all, can only reflect what is sent in to it. What it does reflect is the strength, variety and professionalism of those artists who stand on the middle ground of British art.

It is particularly pleasing that a drawing, a meticulous study of a woman by Warren Baldwin, won the second prize this year, and also that there was a strong entry from younger artists, to whom two prizes are reserved. Mary Griffiths won first prize with an ambitious yet darkly ambiguous figure composition. All the principal prize-winners - there is also a Travel Award - are allowed to show extra works, and these displays, to



MAINTAINING NATIONAL TRUST PROPERTIES OFTEN REQUIRES EXCEPTIONAL LEVELS OF SKILL AND ATTENTION TO DETAIL

'A little light pruning', 1994, by Glen Baxter in the 'Centenary' exhibition

eyes numbed through three days of judging, come as welcome reassurance that we got it right.

The *Venice in Peril* show at Patterson, Albemarle St, W1 until February 11 has also become an annual event, a wide-ranging anthology of images of

la Serenissima by those many artists who, old and faded as she is, still cannot resist her - Tom Coates, Diana Armitage, Peter Kuhfeld, Leslie Worth, Pamela Kay and many more. Since I am one of them, I had better not say more, save only that *Venice in*

Peril, that remarkable organisation set up by the late Sir Ashley Clarke nearly 30 years ago as an example to the rest of the world, still works its own magic on a shoe-string. If we count ourselves civilised, it deserves our support.

Theatre/Sarah Hemming

Greek tragedy in a trailer park

Purveyors of stage blood must be rubbing their hands with glee, as the London fringe theatres fill up with plays about violence. Hard on the heels of the controversial *Blasted* at the Royal Court comes Tracy Letts' *Killer Joe* at the Bush, another disturbing account of the roots and effects of violence.

Letts' brilliantly controlled play, however, works by stealth. From the opening scene with its grim domestic scenario you realise that something dreadful is bound to happen, but Letts soothes and seduces you with humour, so that when the violence finally does erupt, like the lid blowing off a pressure cooker, it is shocking, terrifying and leaves you reeling from the theatre.

What is salient about this is that we know that most violence in America is domestic: here, Letts, a Chicago actor turned writer, shows you how it comes about and, more

importantly, why. And it is only one aspect of a blackly funny but profoundly worrying exploration of moral inadequacy.

Letts sets his play among a Texan family so dysfunctional they make the Addams family look exceptionally well adjusted. They live physically in a depressing trailer-home outside Dallas and spiritually in a barren wasteland. As we meet them, Chris, a hopeless youth enthralled to some mob, has decided that the solution to his financial problems is to kill his estranged mother and cash in her insurance policy, and he is busy convincing his father, Ansel, of this fact.

Now anyone with half a brain would see that this idea is fraught with danger, but Chris and Ansel do not have half a brain between them, so they deduce that this is a good plan and engage the services of "Killer Joe", a suave and terrifying bent cop. They reckon without two things: the machi-

nations of Ansel's second wife, and the fact that Killer Joe will take a fancy to the daughter of the family, the sweet but emotionally retarded Dottie. When Joe demands Dottie as a down payment, the men, outraged, agree, dispensing with her virginity as easily as they do with her mother's life.

The plot is as callous as a Greek tragedy, while there are echoes of other writers - Shepard, Faulkner, even Tennessee Williams. But Letts makes the territory his own, with his assured style and expert manipulation of mood and tension. He is well served by Wilson Milam's highly-charged, muscular production, which is full of grimy realistic detail - a kitchen so filthy your fingers itch for a damp cloth, a fridge empty but for a crate of beer, a television that is always chattering away - but also seethes with atmosphere and sudden surprises. Joe's candlelit seduc-

tion of Dottie is like watching a spider move in on a fly, yet it is also astonishingly beautiful. You watch, aghast, as the sophisticated twist takes control of this hopeless, deracinated family.

The cast is superb. Eric Winzenried is thoroughly chilling as the smooth, balding, snake-eyed Joe; Mike Shannon, as Chris, mumbles with inexpressible rage, and Marc A. Nelson, as the dopey, beer-bellied Ansel, drips with inadequate fancy. Holly Wantuch is acidly funny as Ansel's razor-thin, grasping second wife and Shawna Franks is compelling as Dottie, the only character with an ounce of real power.

It is a powerful, funny and very sad play, and though its portrait of moral decrepitude is exaggerated for comic effect, its point is deadly serious. Letts offers a furious portrait of an underclass so hopelessly corroded by poverty and denial that violence is the only means left of self-expression.

Recital/Richard Fairman

Borodin Quartet

Even during the darkest days of the Communist era music shone with a positive glow out of the Soviet Union. Just as soloists like Richter, Vishnevskaya and Rostropovich were giants in their field, so the Borodin String Quartet stood out as first among equals, an ensemble of which the great tradition of Russian music-making could be proud.

During 1995 it is engaged on an extensive tour that will take the players to every corner of Europe. This year the quartet is celebrating its golden jubilee, though the term has to be taken with some licence, as the marriage of the four musicians has been far from constant. Founded in 1945, the group was originally called the Quartet of the Moscow Philharmonic and it was only after a change of name and various divorces, as players left and others joined, that the present time-up was formed in 1976.

Despite all that coming-and-going, the music-making has remained at the highest level throughout. The post-war era has seen a number of eminent string quartets come to prominence, but the Borodin's place in history is assured. Its ability to survive through self-renewal has meant that it has stayed at the top longer than the others and - more important - its name will always be associated with the greatest composer of the string quartet from the post-war period.

That composer was Shostakovich. The Borodin's complete recording and live cycles of his 15 quartets (memorably at the QEH in 1986) may be said to have established the

music once and for all. It was inevitable that Shostakovich would feature on the 1995 tour and two of the three programmes at the Wigmore Hall include his chamber works. The first recital on Sunday ended with exemplary performances of the Seventh and Eighth Quartets of the kind we have come to expect - eloquent, understated, deeply thought out.

No other four players have so sympathetically exposed the "other" Shostakovich. Broadly speaking, the symphonies and the quartets reveal the two sides of the man - the one public, the other private. While some ensembles accentuate the harsh intensity that is still present in his quartet writing, the Borodin players move in a world of the subtlest half-lights, where every shade of grey reflects another corner of the soul. These performances came closer than ever to the doubt and despair that is hidden deepest inside.

In each of the three anniversary programmes there will be a Russian guest. In fact, at Sunday's recital there were two, the viola player Yury Bashmet and cellist Mikhail Milman, who joined their Borodin colleagues in an achingly lyrical performance of Tchaikovsky's String Sextet, *Souvenir de Florence* (even in this company Bashmet's inimitable tone-colouring spoke with distinction). The other invitees will be the cellist Natalia Gutman and pianist Elio Virsaladze.

Two further recitals at the Wigmore Hall on January 25 and February 10

Concert/David Murray

Boulez at 70

Pierre Boulez is celebrating his 70th birthday with a London Symphony concert-see, in Paris next, and then in Vienna, New York and Tokyo. Nowadays such events get automatic cloning, even when the artist is as rarefied a figure as Boulez. In his case it is enough that he has a cosmopolitan reputation for conducting a special repertoire, with the further aura of a composer understood to be a major mid-century revolutionary - though few among his current audiences could identify anything more than odd bars from *Le Marteau sans maître* as being his work.

In fact each of his six Barbican programmes (two of them repeated) includes a work of his own. A sampling from his oeuvre, rather than a proper prospectus; they are too disparate to let newcomers join up the dots and discover exactly how the composer has developed over 40 years. (Three early pieces, obsessively recomposed later; from the start of the 1960s, one of the sections of the huge *Pli selon pli* that he has not formally "withdrawn" from performance; two fanciful, ravishing works from later). Prudently, every concert bills a famous soloist - Barenboim, Pollini, Mutter, Kyung-wha Chung, Jessye Norman and Rostropovich, of whom only the last is going to play some Boulez.

Boulez began on Thursday not with a concert, but a master-class "rehearsal" with full orchestra and three novice con-

ductors, which attracted a keen audience. His practical address is fabulously precise - in the early days, indeed, his suggested-palm semaphoring urged one of those mimes who like to be trapped in invisible glass cages. The technique is smoother now, but just as exact and practical: no show, no soulful "expression". Next to him, every student's beat looked lightheavily vague.

The house was full for Sunday's concert, which like all those to come consisted of 20th-century classics that Boulez admits to his canon (many others are sternly excluded). As usual his account of Webern's ground-breaking *Six Pieces*, op 6, was magisterial, translucent, luminous. His own *Notations*, based on piano sketches fifty years old, were brilliantly pointed; Stravinsky's *Song of the Nightingale* glittered barbarically (the start was much quicker than he had let his students attempt on Thursday).

Only Bartok's First Piano Concerto, with Daniel Barenboim as soloist, betrayed rough edges. Though it is an increasingly rare pleasure to hear Barenboim at his own instrument, there were a lot of fignoles of forceful character, and some plain disarray between orchestra and piano. The general effect was bracing enough, but it is unusual for Boulez to be content with mere general effects.

The Boulez series continues at the Barbican Hall until March 9.



Superb: Eric Winzenried and Holly Wantuch in Tracy Letts' disturbing play, 'Killer Joe'

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Semiramide: by Rossini. Ion Marin conducts the Royal Symphony Orchestra at 1 pm; Jan 28
● The Royal Concertgebouw Orchestra: Valery Gergiev conducts Bartok and Stravinsky at 8.15 pm; Jan 25, 26, 27
OPERA/BALLET
Het Muziektheater Tel: (020) 551 6922
● L'italiana in Algeri: by Rossini. Produced by Oario Fa. conducted Alberto Zedda at 8 pm; Jan 24, 26

BERLIN

GALLERIES
Neue Nationalgalerie Tel: (030) 266 2653
● George Grosz, Berlin-New York exhibition of the German Dadaist who emigrated to the US; to Apr 17
OPERA/BALLET
Deutsche Oper Tel: (030) 341 9249
● Aida: by Verdi. Conductor Stefan Soltesz, production by Götz

Friedrich at 7 pm; Jan 25, 26 (8 pm)
● Ballet Evening: conducted by Sebastian Lang-Lessing. Nacho Duato, Glen Tetay and Harris Mandafounis choreograph works by Cebus, Poulenc and Stravinsky at 7 pm; Jan 27 (7.30 pm)
● Der Fliegende Holländer: by Wagner. Conducted by Heinrich Hollreiser, production by Gustav Rudolf Sellner at 7 pm; Jan 31
● Madama Butterfly: by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani at 7 pm; Jan 26 (7.30 pm)

FRANKFURT

CONCERTS
Aite Oper Tel: (069) 1340 400
● North West German Philharmonie: with soprano Gail Gilmore, and conducted by Michael Jurzawski plays a variety of operatic pieces at 8 pm; Jan 28
● Philharmonia Orchestra London: with pianist Tzimon Barto, and conductor Lawrence Foster plays Beethoven and Brahms at 8 pm; Jan 24
● Saarland Radio Symphony Orchestra: with pianist Bella Davidovich, and conducted by Marcello Vitti plays Mozart, Chopin and Schubert at 8 pm; Jan 25

LONDON

CONCERTS
Barbican Hall Tel: (071) 638 8891
● Pierre Boulez: conducts the London Symphony Orchestra with soprano Jessye Norman and the London Symphony Chorus as part of his 70th birthday celebration. Music includes Berg, Bartok and his own, 'Livres pour cordes' at 7 pm; Jan 26, 28

7.30 pm; Jan 24, 26, 29
Festival Hall Tel: (071) 928 8800
● Handel: Messiah: Charles Franco conducts the Royal Philharmonic Orchestra and soprano Turid Kartsen, contralto Ruby Philogene, tenor Hirohisa Tsuji and bass Hubb Claessens at 7.30 pm; Feb 1
● Philharmonie Orchestra: conducted by Lawrence Foster plays Rossini, Paganini and Tchaikovsky at 7.30 pm; Jan 30
● Royal Philharmonic Orchestra: with soprano Galina Gorchakova and conductor Valery Gergiev plays Wagner at 7.45 pm; Jan 24, 31
● The London Philharmonic: jazz meets the symphony. Lalo Schifrin conducts this fusion of classical and jazz traditions at 7.30 pm; Jan 29
● Vienna Philharmonic Orchestra: Bernard Haitink conducts Bruckner's Symphony No. 8 at 7.30 pm; Feb 2
Queen Elizabeth Hall Tel: (071) 928 8800
● The 1995 Mozart Birthday Concert: the Britten Quartet with Norbert Blume (viola) and Leon McCawley (piano) at 3 pm; Jan 29
GALLERIES
Barbican Hall Tel: (071) 638 8891
● Impressionism in Britain: the first comprehensive survey of the development of Impressionism in Britain. Over 200 works by over 100 artists including Degas, Rodin, Whistler, to May 7
Serpentine Tel: (071) 402 0343
● Man Ray: exhibition of works by the celebrated artist; to Mar 12
OPERA/BALLET
English National Opera Tel: (071) 632 8300
● Figaro's Wedding: in house debut for conductor Derrick Inouya at 7 pm; Jan 26, 28

● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a mafia boss at 7.30 pm; Jan 27; Feb 1
Royal Opera House Tel: 071 340 4000
● Così fan Tutti: by Mozart. A new production directed by Jonathan Miller. Conductor Evelino Pidò. In Italian with English surtitles at 7 pm; Jan 25, 28, 31
● Otello: by Verdi. Conductor Carlo Rizzi, director Elijah Moshinsky. In Italian with English surtitles at 7.30 pm; Jan 24, 26; Feb 1
● Troilus and Cressida: by Walton. An Opera North production conducted by Richard Hickox and directed by Matthew Warchus at 7.30 pm; Jan 30; Feb 2
THEATRE
National, Olivier Tel: (071) 928 2252
● The Merry Wives of Windsor: by Shakespeare. Terry Hande directs his first production at the National. With Denis Quillay as Falstaff, Brenda Bruce as Mistress Quickly and Geraldine Fitzgerald as Mistress Ford at 7.15 pm; Jan 27, 28 (2 pm), 30
NEW YORK
GALLERIES
Museum of Modern Art Tel: (212) 708 9480
● A Century of Artists' Books: Exhibition of 140 books from some of this century's foremost artists; to Jan 24
● Kandinsky: Compositions: exhibition includes seven of the surviving 'Composition' paintings; from Jan 26 to Apr 25
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Cavalleria Rusticana / Pagliacci: by Mascagni/Leoncavallo. Production by Franco Zeffirelli, conductor Christian Badae at 8 pm; Feb 1
● L'Elisir d'Amore: by Donizetti. Produced by John Copely, conducted by Edoardo Müller at 8 pm; Jan 24, 28
● Le Nozze di Figaro: by Mozart. Produced by Jean-Pierre Ponnelle, conducted by James Levine at 8 pm; Jan 25, 28 (1.30 pm)
● Simon Boccanegra: by Verdi. A new production directed by Giancarlo del Monaco. James Levine conducts the opening night cast of Cheryl Studer, Plácido Domingo and Vladimir Chernov at 8 pm; Jan 28, 30; Feb 2
● Turandot: by Puccini. Produced by Franco Zeffirelli, conducted by Nello Santi at 8 pm; Jan 27, 31

PARIS
CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● London Symphony Orchestra: with soprano Jessye Norman. Pierre Boulez conducts Berg, Bartok and his own compositions at 8.30 pm; Feb 1, 2
● National Orchestra of France: with violinist Sarah Chang and conductor Charles Dutoit plays Flavel, Lalo and Stravinsky at 8.30 pm; Jan 24, 26, 27
● Viennese Philharmonic Orchestra: Bernard Haitink conducts Bruckner at 8.30 pm; Jan 30
WASHINGTON
CONCERTS
Kennedy Center Tel: (202) 467 4800

● National Chamber Orchestra: tenth anniversary gala concert with the Washington Bach Consort. Piotr Gajewski conducts at 8.30 pm; Jan 25
GALLERIES
Sackler Tel: (202) 357 2700
● A Basketmaker in Rural Japan: examples of all 103 designs by Hiroshige Kozuo, the world's greatest basketmaker; to Jun 9
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● Semels: by Handel. Conductor Martin Pearlman. Roman Tureckiy directs a Zack Brown production at 8 pm; Feb 2
● The Bartered Bride: by Smetana. Conducted by Heinz Fricke. In English at 8 pm; Jan 25, 30; Feb 1
● Vanessa: by Samuel Barber. Director Michael Kahn, conductor Christopher Keene at 8 pm; Jan 28, 29 (2 pm)
THEATRE
Arena Stage Kreeger Theater Tel: (202) 554 9088
● Hedda Gabler: Henrik Ibsen's drama, directed by Liviu Ciulei and translated by Christopher Hampton at 7.30 pm; from Jan 27 to Mar 19 (Not Mon)
Arena Stage, Fichandler Theater Tel: (202) 488 3300
● Long Day's Journey into the Night: Eugene O'Neill's classic American drama, directed by Douglas Wager at 7 pm; to Feb 5 (Not Mon)
Studio Theater Tel: (202) 332 3300
● Conversations with My Father: Herb Gardner's autobiographical work, directed by John Going. Sun 2pm and 7pm otherwise at 8 pm; to Feb 5 (Not Mon)

WORLD SERVICE

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Hopes for a lasting peace between Arab and Jew are at their lowest point since the Israeli-Palestinian peace accords were signed in September 1993.

Sunday's suicide bombing by Palestinian extremists, which killed 19 Israelis at a bus stop, has aroused fears among Israeli Jews that the peace process is undermining rather than improving their safety. President Ezer Weizman, an ardent supporter of the peace talks in the past, captured the gloomy public mood when he called for a suspension of the peace process until the Palestinians make better efforts to curb militants.

"We call it a peace process which we hope to achieve. But right now it's a bloody process and with bloody processes you don't achieve peace," Mr Weizman said.

The Israeli cabinet responded by suspending negotiations on some issues, including the release of Palestinian prisoners. It also sealed off the West Bank and Gaza Strip and issued new ultimatums to Mr Yassir Arafat, the Palestinian leader, demanding that he crack down on Islamic extremists.

Israel's punitive measures, however, are unlikely to help the peace negotiations. The talks are hampered not only by the actions of Islamic extremists opposed to peace with Israel, but also by the expansion of Jewish settlements on occupied Arab land. The Israeli government, furthermore, is reluctant to honour its commitment to redeploy troops out of Arab towns on the West Bank ahead of Palestinian elections.

Security has always been the most important issue for Israeli governments. Israelis backed the peace process because they believed it would reduce Arab-Jewish violence. But the campaign of bombings and attacks by Palestinian Islamic militants has sapped Israeli morale and turned the country against the agreement. Sunday's bombing, the fourth high attack in nine months, brought the Israeli death toll from such attacks since the 1993 peace agreement to 116.

Political commentators and newspapers usually supportive of peace yesterday latched onto Mr Weizman's call and the discontent with the government. An editorial on the front page of Yediot Ahronot, the highest selling Hebrew tabloid, said: "The way it looks the terror will go on and perhaps the negotiations will go. The government will be finished."

Terror takes its toll

Julian Ozzanne on pessimism in Israeli-Palestinian peace talks



Spirit of mistrust: an Israeli soldier gestures to a Palestinian

Mr Amnon Rubinstein, the leftwing education minister, believes Mr Arafat has failed to live up to his security obligations. "He must adopt a total turnaround on security issues... or jeopardise the entire peace process," he said yesterday.

Yet forcing Mr Arafat into a war against his own people does not find favour with Palestinians. "Israel is demanding the impossible," said Mrs Hanan Ashrawi, a Palestinian leader. "A crackdown against so-called extremists can only undermine Arafat even more and further discredit the peace process among our people."

Security concerns are also behind the government's unwillingness to withdraw troops from the West Bank. Military officers have advised against it, saying the experiment with self-rule in Gaza has proved that without an Israeli military presence in the West Bank Islamic extremists will

find it easier to launch attacks. Mr Rabin and Mr Arafat have met several times to seek ways out of this impasse. But they have yet to find a way to reconcile Israel's security reservations with the Palestinians' determination not to vote under the barrels of Israeli guns.

The delay in extending self-rule to the West Bank has allowed Jewish settlers and rightwing politicians inside and outside the government to force the issue of Jewish settlements and Jerusalem onto the government's agenda.

Mr Rabin and Mr Arafat had hoped to sidestep the issue until final negotiations begin in 1996, but a recent flurry of Jewish construction in the occupied West Bank has made the settlements a pivotal issue in the peace process.

Nothing worries the Palestinians more than Jewish settlers consolidating and expanding their presence on Palestinian

land. Mr Arafat fears that the real intention of the settlers is to fragment the West Bank into islands of Jewish and Palestinian territory and so foil the emergence of a geographically coherent and independent Palestinian state.

The government promised in 1992 to freeze publicly-funded construction of new housing in Jewish settlements everywhere except occupied Arab east Jerusalem. But it lacks the will to confront the 140,000 West Bank Jewish settlers and their supporters in Israel.

Last Sunday's cabinet meeting fudged the issue. It supported a freeze on settlement expansion but set up a ministerial committee to monitor exceptions to the policy.

Many of these obstacles could have been overcome had the government maintained the momentum of the peace process. But Mr Rabin's determination to prolong the process to test the viability of self-rule created a vacuum which extremists on both sides have ably exploited.

Palestinian extremists used the delay to argue that Israel never intended to end the occupation and to launch their campaign of bombings and attacks. Jewish settlers saw the government's public reluctance to withdraw troops from West Bank towns as a go-ahead to consolidate claims to land they see as "biblical Israel".

The government's peace policy has thus become a victim of its own delay. Collapsing public support has narrowed Mr Rabin's room for manoeuvre. With a general election due in 1996, senior members of Mr Rabin's Labour party are inclined to respond rapidly to changes of public opinion, a tendency that has fuelled party and cabinet rebellions on issues from the peace process to economic policy.

"The peace process becomes much more difficult when there is a feeling that Rabin has lost his way both inside the government and in the country," said Mr Yossi Alpher, former head of the Jaffee Centre for Strategic Studies in Tel Aviv.

Both Mr Rabin and Mr Arafat are finding it increasingly difficult to control the events which are now driving the peace process. Yet neither man can easily withdraw from a process on which each has staked his political future. The danger is that their inability to move forward or back will embolden extremists on both sides of the Arab-Israeli divide.



Throw dynamite or blast a shotgun at him, sandbag him with a Euro-revolt or drown him in the depths of the opinion polls - it makes no difference. Whatever fate heaps upon his head, however loud the explosion, Mr John Major rises again, last year bedraggled, this year smiling broadly, like Tom in the Tom and Jerry cartoons. The British prime minister has surpassed himself in the basic test imposed upon all politicians: he is a master of survival. Heaven knows how long he can keep this up, but the answer hardly matters. It is what he is doing while not running for cover that counts. Or, to put it bluntly, is he any use, or is he merely clinging to office?

The answer, which historians alone may deliver with confidence, will depend on how steadfast he is as the next general election approaches. Meanwhile, we shall forbear to rehearse the story of government vacillation to date. Anyhow, there is not enough space for it all. Likewise, we need not record the full statistical measure of contempt in which the cabinet is held. We may simply acknowledge that most of the electorate regards it as a collage of cowardly charlatans. Mr Major is better than that, but his political courage cannot be taken for granted, not in all circumstances.

There are at least three areas in which the prime minister's mettle will be put under stress this year. In Northern Ireland he has to call the Unionists' bluff, or risk forfeiting the peace that he has worked so hard to bring about. Overall, he must resist the temptation to let inflation rip in an effort to regain popularity. Ah, no, he should, but will not, establish Britain as a willing member of the European Union. In short, we may trust the government on the economy, sort of, and, fingers crossed, might do so on Ulster. Britain's position in the EU is another matter.

Oh, it may be protested, but the party is split. So it is. What of it? Would the rebel faction of Eurosceptics really bring Mr Major down this week or next, thus inviting a Canadian-style sweep-out of Conservatives? The same question applies to the Ulster Unionists, who last year saved the government from just such a fate. They have seen how the Euro-rebels have the prime minister by the nose, and drawn the obvious conclusion. Over the weekend Mr James Moynihan warned against the tabling of an Anglo-Irish "frame work agreement" on Ulster if it contains clauses that imply the establishment of joint authorities - north and south - over the six troubled provinces.

Yet the leader of the Official Unionists derives some of his leverage from the very precariousness of the Conservatives' position in the Commons. He would not be so influential in a house with a three-figure Labour majority, which current opinion polls suggest is at least a risk should an election be forced in the near future. He can scupper any initiative of a UK prime minister by refusing to negotiate on the details, but Unionist support for the Conservative government will not be lightly withdrawn.

Mr Major should dare to press ahead with whatever draft agreement he thinks might eventually win acceptance as a basis for negotiation, despite what the various varieties of Unionist may say for their own internal party reasons. He may yet do so. On this his track record is good: every card he has played so far has been the right one, at the right time. Until he botches an important trick, which he would do were he to produce a futile framework agreement, we may reasonably expect that he will hold his nerve.

The benefit of the doubt should also be given to the government's economic strategy. One reason is that the instruments of control are not in political hands alone. If Mr Clarke or Mr Major deviates from the counter-inflationary strategy they have pursued with dogged determination, the governor of the Bank of England might cry havoc. The first test of ministerial resolve will be the monetary policy pursued this year; the next the degree of "prudence" attributable to pre-election tax cuts, if they come in November.

The government's European strategy cannot be defended. The prime minister who placed his country firmly "at the heart of Europe" when he entered No 10 Downing Street, is 50 months later, grovelling before the Eurosceptics who want withdrawal from the EU. These rebels hover on the borders of his party, supported by an unknown number of Tory anti-European constituency workers, who thrill to wartime memories of "very well, alone". A strong leader would brush their revolt aside. It is a nothing. A faction of backbenchers has been denied the Tory whip. This gang of nine would not

Joe Rogaly

Major's triple test

If the supposedly Europhile chancellor perfects his act, he will be in line for the Tony Blair award for political obfuscation

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LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 3938 (please set fax to "line"). Translation may be available for letters written in the main international languages.

IMF should not fund Russia

From Professor Diana Maurer.
Sir, I cannot agree more with your views expressed in your editorial "IMF dilemma over Russia" (January 20). In fact, there should be no dilemma at all on the part of the International Monetary Fund over giving funds to Russia. The IMF should simply give no funds whatsoever.

It is a bad policy, bad business and bad psychology for the west to be timid with the Russians, giving them billions of dollars for supposed aid while they are killing their own citizens. In fact, it appears the west is paying Russia for executing Chechen civilians.

This policy achieves nothing but plays into Russia's hands. Western leaders should be co-operating on how to punish the Russians, not how to reward them for cluster bombing civilians in Grozny. Anywhere human rights are not only violated but where civilians are brutally murdered the world community should step in and excommunicate the villain and not reward him for genocide.

Since ordinary people in Russia are going hungry and are nutritionally, spiritually and financially depleted, it is very clear that any funds the IMF had approved or will approve never went to the people for whom they were intended. Rather than using IMF funds for paying working people so that they can make ends meet and feed starving pensioners and children, Yeltsin is funneling the funds directly into the tanks and bombs that are showering Grozny with death and destruction.

Since the people of Russia do not see the benefit of even 1 per cent of the IMF funds it makes no difference whether the IMF gives the funds or not. Stalin was killing Chechens 50 years ago. Yeltsin is killing them now in full view of the world. The only difference is Stalin never got a \$6.5bn reward from the west and no one called it democracy.

Diana Maurer.
London Terrace PO,
PO Box 20295,
New York, NY 10011, US

Universal postal service cannot work in a totally free market

From Mr Alan Johnson.
Sir, Your editorial on postal services ("End Europe's post cartel", January 19) was disappointing in that it spelt a perfectly valid argument about terminal dues by associating this with an attack on the limited monopoly granted to postal administrations throughout the world.

In particular, it makes the error of comparing postal services with telecommunications, as if they were identical industries.

Leaving aside a host of other differences, while telecommunications administrations had a universal service obligation, this has never been linked to a uniform tariff. Neither are there the same low entry costs into the telecoms market which allow postal competitors to cream off lucrative traffic to the detriment of the network as a whole.

On June 11 1992 the European Commission produced a report which addressed all the points contained in your

leader. In contrast to its 1987 report on telecommunications, which called for liberalisation, the report on postal services accepted that there needed to be a "reserved area" without which there could be no effective, affordable and universal postal service. This same conclusion was reached by two Monopolies and Mergers Commission reports in the 1980s.

Having cast around the world to find an example of postal liberalisation, you can find only three cities in Sweden - a country where there is only one delivery Monday to Friday and none at all on Saturday.

There is a common consensus among all interested parties that affordable, accessible postal services cannot be provided in a totally liberalised environment.

A benefit of EU membership is that customers can post a letter to anywhere within the Union for 25p. Thus a letter from London to Athens can be sent at the same price, as a

letter to Aylesbury. Liberalisation will make much geographical cross-subsidies unviable domestically as well as internationally.

As for the competitors, at least the most reputable have been frank enough to admit (to quote DHL's submission to the trade and industry select committee) that it would "not be possible for a private company to guarantee a universal postal service within the UK".

This may offend some of the free market advocates who write your editorials, but it is a factual and honest assessment of the situation.

What is required is an intelligent debate about postal services - not a shallow attempt to apply the theory of telecoms liberalisation to European postal services.

Alan Johnson,
general secretary,
Union of Communication Workers,
UCW House,
Crescent Lane,
London SW4 9RN, UK

Markets argument moves on to swampy ground

From Mr Joe Roebuck.

Sir, The debate on the morality of the market system is valuable ("Adam Smith and the virtue of capitalism", January 16 and Letters, January 20).

But to talk about the morality of markets per se is to divert the debate about ethics and economics into swampy ground. Markets are neither moral nor immoral; they are a dumb piece of machinery. They don't "know" anything, still less "do" anything of their own volition. It is not the markets that misbehave; it is the players who misbehave whenever they think there is money to be made. Hence, intervention in the functioning of a market to force a different outcome is almost always ineffective, akin to re-calibrating a thermometer in order to cure a fever.

Governments should only be interested in markets to make sure they do their job; are efficient and transparent; and cannot be manipulated.

The boosters claim that markets offer solutions to complex economic problems. The critics say that they are to blame for all the ills of our society. Both are surprising misrepresentations of what the things exist for, and how they operate; economists, of all people, should know better. Markets function perfectly well at any price level; they mediate in the transactions between poor people as efficiently as between the rich.

It is when interested parties are able to manipulate and abuse them that the government should be interested, and it is to prevent these abuses that they should intervene, not in the workings of the markets themselves.

Joe Roebuck,
82 Carlton Hill,
London NW8 0ER, UK

Means to wrong end

From Mr Anthony W Shone.

Sir, The electronic aids that make it possible to monitor markets minute by minute, although very impressive, are a mixed blessing. With such frequent updating, does the FTSE index really give the intended information on overall market sentiment?

Volatility of markets is a frequently discussed topic nowadays. If minute by minute adjustment was foregone and indices were adjusted, say, every two hours, the peaks and troughs would be eliminated and overall sentiment more clearly seen.

Just because the means exist to adjust on a running basis it does not mean to say that they have to be used.

Anthony W Shone,
Wilson Foods,
The Corn Exchange,
Fennel Street,
Liverpool L2 7QS

Tax should be imposed on pollution instead of employment

From Mr James Skinner.

Sir, Day after day you report on employment cuts made in the name of "increased efficiency" while politicians wring their hands over persistent unemployment figures and bewail the failure of their job-creation policies.

How refreshing to read at last one article stating the

obvious fact that taxing labour creates unemployment (Personal View: "Wise to lower the cost of low paid labour", January 20).

But Professor Alec Reed fails to pursue his logic and only nibbles at the edge of the problem. Transferring taxes from employment to "speeding, smoking and drinking"

is a good start. It should be accompanied by a staged reduction in income tax, National Insurance and VAT, compensated by increasing taxes on pollution and on non-renewable energy and raw materials levied at source.

The arguments in favour of this kind of ecological tax reform are widely understood

and accepted in Germany and elsewhere but are studiously ignored by politicians in the UK. Perhaps Professor Reed's glimpse of the obvious may encourage a change.

James Skinner,
Heron House,
Chiswick Mall,
London W4 2PR, UK

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FINANCIAL TIMES

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Tuesday January 24 1995

Strong drugs, no side-effects

The ailment is clear, but the choice of remedy raises tricky questions. In launching its \$9.4bn bid for Wellcome, Glaxo is proposing to create the world's largest drug group. It also believes that it has found a solution to the problems facing the pharmaceutical industry. At the same time, drug purchasers worldwide are using their growing muscle to whittle away at the pharmaceutical industry's enviable margins.

For the companies themselves, there is a strong argument that the proposed deal makes sense. There is, certainly, room for some scepticism that buying Glaxo is really the best use Glaxo can make of its capital. After all, its management made clear for years its preference for organic growth, driven by heavy investment in research and development. Nonetheless, there is clearly room to cut costs: investment analysts estimate that about 90 per cent of the two companies' R&D overlaps. The deal might also shake up some of the industry's deeper corners - its failure to move aggressively into genetics is striking, for example.

The tougher questions, however, concern whether the merger of two large research-based companies is in consumers' interests. Given the pressures on the industry, this may well not be the last case. The worry is that such deals will reduce competition in worldwide pharmaceutical research, and will squeeze overall spending on R&D.

Misplaced anxiety

However, the anxiety is misplaced. In the UK, concerns that spending on basic science will be squeezed are partly mitigated by the money which Wellcome Trust, the world's largest medical research charity, would receive from its 39.5 per cent shareholding in Wellcome. The trust could expect to get \$3.5bn - \$1bn in cash and the rest in Glaxo shares - and some would make its way into university research.

There is a case, too, that even if worldwide spending on pharmaceutical R&D is squeezed by the industry's restructuring, the increasing pressures on companies may increase the efficiency with which they extract marketable

products from that spending, and reduce the time they take to bring products to market.

Not would the deal necessarily damage international competition. As drug companies themselves lament, none has more than 3.9 per cent of the worldwide market. Thus, Glaxo and Wellcome have higher shares of certain therapeutic categories, a point which competition authorities will have to consider. In particular, Glaxo and Wellcome currently hold two of the leading treatments for AIDS and HIV, although rivals are developing other compounds.

Targeted research

But an important reason for keeping calm about potential threats to competition is that new competition is emerging fast, thanks to changes in the nature of biological science. The explosion in knowledge of genetic engineering in the past two decades - both in theory and in techniques - means that drugs can be designed more precisely for their function. Research can thus be more easily targeted, and technology to develop new drugs has shrunk in scale and expense.

Those changes are themselves prompting a restructuring of the industry. Barriers to entry are falling, and small laboratories are setting up, with their eye on creating just one or two drugs. Big groups are finding it hard to hold on to some of their brightest people. Instead, those scientists are spinning off into their own companies where they have more freedom, and the prospect of wealth if their discoveries are successful. The growing sophistication and size of the venture capital industry has made it easier for such start-ups to raise up capital. Government grants have provided another source of funds, as have the pharmaceutical giants themselves, in exchange for stakes. Glaxo itself has about a dozen such alliances.

Unlike many recent deals in the industry, Glaxo is proposing a horizontal merger, rather than a vertical pairing with a purchaser of drugs. As such, the deal is a vote for the value of science. Glaxo clearly believes that R&D, properly directed, can deliver adequate return. The deal is a symptom of the revolution under way in the industry, but not one that threatens consumers' health.

Controlling land mines

Sophisticated weapons of mass destruction are not the only sort of armament whose proliferation is a deadly threat to the planet. There is another instrument of war whose effects are devastating because it is cheap and simple: the land mine. Something needs to be done to curb their uncontrolled spread. The question is what.

The United Nations estimates that over 100m land mines have been sown in more than 60 countries, while another 100m have been stockpiled in readiness for use. These weapons kill more children than soldiers. It has been estimated that they claim 800 - mostly civilian - lives a month and deprive many thousands more of limbs or eyesight. Many of these casualties occur years after hostilities have ceased.

Mines are the scourge of the poor, but also the poor man's weapon, since they cost only a few dollars each. In recent years, the number of mines sown in the world has been increasing at an annual rate of more than 2m, while the average number of mines cleared was only 100,000. Mine disposal costs up to \$1,000 per unit. So, in round figures, the total number of active mines is rising by 1.5m per year, and the aggregate cost of destroying them is rising by nearly \$2bn.

These considerations have prompted Mr Boutros Boutros Ghali, UN secretary general, to call for a ban on the production, stockpiling and use of land mines. He argues that their devastating human consequences far outweigh any military benefits. Last autumn, US President Bill Clinton also made an idealistic, perhaps utopian, call for the total elimination of land mines.

Unenforceable

It is easy to agree with the desirability of that goal, much harder to see how it could be achieved. Mines have become such an integral part of modern warfare that the armed forces of all major countries, including the US, insist on reserving the right to use them. They are produced in over 40 countries, most of them adept at camouflaging army factories. There is good reason to hesitate before concluding any new agreements which risk making an ass of international law because they

are manifestly unenforceable. A UN meeting in Geneva last week agreed in principle on some intermediate steps which should alleviate the worst effects of land mines on non-combatants. These include a ban on the use of hard-to-detect plastic mines, and a stipulation that most mines be fitted with self-destructing devices, so they are less likely to kill civilians after hostilities end. These measures, welcome as far as they go, look certain formally to be adopted at the UN in the autumn.

Rigorous code

As well as supporting the UN's efforts, the US is working separately to draw makers and users of mines into a more rigorous code of conduct. The reason Washington gives for thus bypassing the UN is tactical: if all the most far-reaching proposals on land mines are built into a UN convention, then many countries will refuse to sign it and be left outside all regulation. Under the code of conduct, user countries would declare details of their current mine stocks and promise to increase the percentage of self-destructing devices at a given rate.

Because self-destructing mines are much more expensive than long-life ones, developing countries have argued that they cannot enter the US-proposed system unless rich countries help them. But which rich countries will provide this help? The US Congress, and the governments of most western countries, have announced a self-imposed ban on the export of all mines, at least for a trial period. The UK has declared an indefinite moratorium on the export of long-life mines, while keeping the right to sell self-destructing devices. On the face of things, Britain's more nuanced position has left the moral high ground to others. But if the US achieves its goal of convincing poorer countries to upgrade their mine holdings, the self-destructing devices will have to come from somewhere.

Mines are evil devices, but huge stockpiles will continue to be sold and sown. Those who wish to limit their worst effects would do well to focus on persuading countries to renounce the crudest kind of mine, rather than the more distant goal of a total ban.

Glaxo, the UK drugs company, is used to superlatives. It is Europe's largest drugs company, and number two worldwide in terms of sales.

Yesterday, it announced a takeover bid for Wellcome, the fourth largest UK-owned pharmaceuticals company, that could add further records to its name. It aims to create the world's biggest drugs company with annual sales of almost \$20bn.

If successful, the bid is will be three times bigger than the previous largest by one UK company for another - and the third biggest bid in the world.

Success seems likely, since Glaxo has already agreed to buy the 39.5 per cent of Wellcome's shares owned by Wellcome Trust, the wealthy UK charitable foundation. Negotiations with the trust over the purchase that began at the start of the month ended with the completion of the paperwork on Sunday night.

"We had a 'sign or not this weekend' plan," says Sir Richard Sykes, Glaxo's chief executive. He called Mr John Robb, Wellcome's chairman and chief executive, in the small hours of yesterday morning to tell him of the bid.

Yesterday's bid followed a pledge made by Sir Richard last April that his company would be transformed within a year. He made this prediction confidently, knowing of the growing pressures on the pharmaceutical industry to consolidate.

The industry is remarkably fragmented, with no single drugs company having more than 3.9 per cent of the world market - a figure that has barely changed for decades. Yet the industry has prospered because in many markets outside the US, its prices were guaranteed by government purchasing agreements.

In the US, where healthcare is not regulated by government, drug prices were equally buoyant as doctors and hospitals competed with each other to offer the latest and best treatments - almost irrespective of cost.

In the 1990s, all that has changed. Those who pay for drugs - health insurers and governments - have faced pressures to cut costs. They have found they could make big savings by driving hard bargains with drugs companies.

Profit margins began to fall, and the industry embarked upon a wave of mergers, acquisitions and closures. Some sought to acquire competitors to gain economies of scale, while others bought distributors to bring them closer to the customers.

During 1994, more than \$30bn changed hands in corporate acquisitions. The biggest deal was the \$10bn acquisition of American Cyanamid by rival drug maker American Home Products. Glaxo's UK rival, SmithKline Beecham, spent more than \$700m buying UPS, a US drug distributor, and Sterling Health, the US drug maker.

Glaxo, too, was on the acquisition trail, and was believed to be interested in a drug distributor. But its bid targets slipped out of reach as others offered ever higher

Never before has science played such an important part in a large UK takeover bid.

Sir Richard Sykes, Glaxo's chief executive - and one of the few career scientists at the top of UK industry - repeatedly emphasised research and development yesterday when he outlined the reasons for buying Wellcome.

Neither Glaxo nor Wellcome individually can expect to produce the flow of innovative drugs required to sustain a leading pharmaceutical group in the more competitive environment of the coming decade. By combining R&D programmes and with a total budget of \$1.2bn a year - they can be more productive.

Dr Trevor Jones, former Wellcome research director and now head of the Association of the British Pharmaceutical Industry, called the bid "the clearest possible vote of confidence in Glaxo's future as a wholly science-based company."

*Other large pharmaceutical

Glaxo's plan to buy Wellcome will bring economies of scale but also problems of integration, says Daniel Green

Medicine for a changing market

Wellcome had long been rumoured as a potential bid target. At 19 in the world rankings by sales, it was seen as lacking the size to make economies of scale to preserve its profit margins in an increasingly cost-conscious business.

Until 1992, the company was protected from takeover by the stake held by Wellcome Trust, which then owned 75 per cent of the shares. Under the umbrella of a charitable foundation, the company was notorious for its slowness to exploit its products.

"We all agreed that it took too long for us to get a product from launch to the point of maximum sales," says Dr Trevor Jones, research and development director at Wellcome until last year.

By the late 1980s, even the trust was aware change was needed. Mr John Robb, its chairman and chief executive, had been recruited from UK rival Beecham in 1989 to inject a more commercial culture. The fortunes of Wellcome improved enough for the charitable trust to want to cash in some of its shareholding, and it reduced its stake to less than 40 per cent in 1992.

For Glaxo, Wellcome was seen to be about the right size, says Sir Richard. "We believe this is a manageable company to integrate with our own; anything bigger would have been difficult."

He says that buying Wellcome will help eliminate the inefficiencies in both companies. Most of those inefficiencies are likely to be in research and development.

Glaxo spent \$585m on R&D in the year to June 1994 while Wellcome spent \$262m in 1993 (the latest year for which figures are available).

The two companies' research programmes overlap in six medical areas, including the treatment of AIDS, cancer and migraine.

"There is a lot of opportunity for rationalisation there," says Sir Richard.

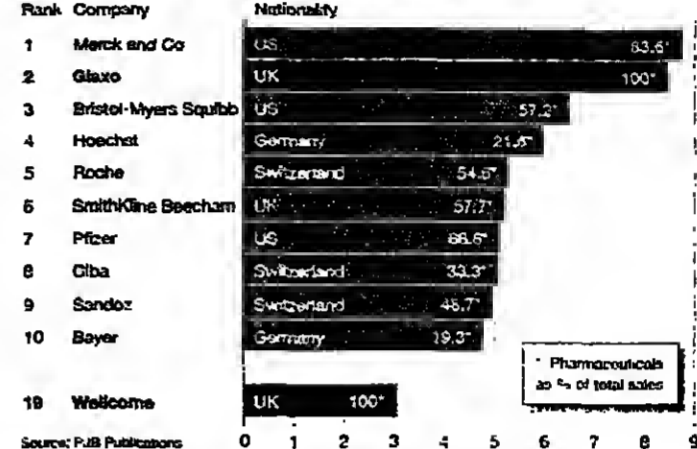
He will be anxious to concentrate research at Glaxo's newly-completed \$700m R&D centre at Stevenage, north of London. Wellcome's UK research centre at Beckenham, south-east London, could be vulnerable to cuts or closure.

In the US the task of rationalising research facilities may be even easier. Both companies have their North American research headquarters

Glaxo and Wellcome: a new giant?



Source: PDA Publications



Source: Datastream

in Research Triangle Park, North Carolina. The two companies may also be able to combine their sales and marketing efforts, which cost roughly twice the R&D budget. The potential for rationalisation here is more limited because the sales teams sell different products - Wellcome is largely dependent on anti-virus

drugs while Glaxo's strengths are in ulcers, asthma and cancer.

If the rationale for the deal is clear, the likely problems are clearer.

First, Glaxo has no experience in integrating acquisitions, having not made one since 1977. During the company's rise to world number two in the pharmaceuticals indus-

try in the 1980s, Glaxo prided itself on internally-generated growth.

Not only does Glaxo have no experience in integrating acquisitions, but Wellcome's products are largely in anti-virus medicines, an area Glaxo knows little about.

Second, the merged company will be reliant on income from two drugs that are now reaching the end of their patent protection.

Glaxo has relied largely on the sales of Zantac, the ulcer drug that is now the world's best-seller. It accounts for more than 40 per cent of Glaxo's sales revenues. Yesterday's offer included a trading statement saying that Zantac sales were falling for the first time since the product was launched in 1981.

Zantac's US patent protection is running out, and could expire as early as 1997 (depending on the outcome of legal actions). That is also the year in which the patents run out on Zovirax, Wellcome's top seller which also accounts for more than 40 per cent of the company's sales revenues.

Recent patent expiries in the US suggest sales revenues could fall by three-quarters within a few months as non-branded rivals are launched. Sir Richard claimed new products will be able to replace revenues from Zantac and Zovirax. These include ranitidine bismuth citrate, a replacement for Zantac, and Valirex, a more effective anti-virus drug - neither of which is yet approved by pharmaceutical regulators.

The new company will have other weaknesses. Both Glaxo and Wellcome have failed to crack the lucrative Japanese market, which accounts for around 18 per cent of world pharmaceutical sales. By ranking, they languish at 44th and 70th in Japan.

The two companies also have adopted different strategies for survival in the past. For a decade, Glaxo has concentrated on prescription-only drugs, while Wellcome established itself in the market for over-the-counter (OTC) drugs that can be sold without prescriptions. The two strategies require different marketing approaches.

With yesterday's offer, Glaxo has committed itself to the new strategy: buying drugs companies rather than distributors, and a return to the over-the-counter market. It stands alongside American Home Products with its American Cyanamid purchase, and Switzerland's Roche, the third biggest drugs company, which last summer spent \$5.5bn on Californian rival Syntex.

The alternative strategy has been adopted by Merck, currently the world's number one drug company. UK rival SmithKline Beecham and Eli Lilly of the US. These three have spent more than \$12bn between them on buying drugs distributors.

Sir Richard is unrepentant. He dismisses buying distributors as "fashionable". But he agrees with his rivals that consolidation is necessary and inevitable. Yesterday's bid will almost certainly not be Glaxo's last.

Marriage made in the lab

The R&D programmes will benefit, says Clive Cookson

groups such as Merck and SmithKline Beecham have decided to spread the risk by vertical integration into related areas such as health management, but Glaxo will continue to risk everything on its research," Dr Jones says.

Glaxo and Wellcome have very different portfolios of existing products: Glaxo sales are dominated by ulcer and asthma drugs while Wellcome depends on anti-virals (to treat herpes and AIDS).

Their R&D programmes, in contrast, are remarkably similar. Both companies are making a large effort to find new drugs in the same categories: anti-infective, anti-cancer, cardiovascular and central nervous system.

That overlap would enable a com-

bined Glaxo Wellcome to make large savings by rationalising R&D facilities and still outstep all competitors in its chosen fields of research.

In anti-viral research, GW would be far ahead of the field, with promising new drugs in development for herpes (Wellcome), influenza (Glaxo), hepatitis (both) and AIDS (both).

Patients with HIV, the virus that causes AIDS, would benefit from a takeover if it accelerated the development of a "combination therapy" pairing Glaxo's experimental 3TC with Wellcome's established AZT. 3TC is also active against hepatitis, for which it will complement Wellcome's Wellferon.

Migraine treatment is another

area in which Glaxo will significantly strengthen its competitive position by buying Wellcome. Clinical trials are showing that Wellcome's experimental drug, 311C, could be a powerful competitor to Glaxo's Imigran - much the most effective migraine drug on the market. At the same time Glaxo is working on naratriptan, its own successor to Imigran.

"We will not be developing two drugs of the same type," Sir Richard made clear yesterday. In other words, GW will evaluate 311C against naratriptan, proceed with the more promising prospect and drop the other.

One general field in which Glaxo has outclassed Wellcome is the application of genetics research to

drug discovery. Glaxo has set up a network of research alliances with US biotechnology companies and is feeding the results successfully into its own research centres in Research Triangle Park (US) and Stevenage (UK). The merger will extend those benefits to Wellcome.

Another hot technology in which Glaxo is a world leader - and Wellcome a potential beneficiary - is "combinatorial chemistry". This enables researchers to make millions of new molecules and screen them for pharmaceutical activity.

However, Wellcome does have world-class scientists working at its Beckenham (UK) and Research Triangle Park laboratories. For example, Dr Salvador Moncada helped make one of the most important biological discoveries of the past decade: the vital role played in the human body by nitric oxide (formerly known only as an industrial pollutant). Glaxo will have to ensure that ill-judged cost-cutting does not drive them elsewhere.

OBSERVER

The power of suction

Should Eurobond issuers employ the services of a seismologist? Sweden's Electrolux must be wishing it had, as it ponders the fallout from a rather novel financing completed in early 1990.

The cause of the problem is a \$50m seven year bond, placed privately with a Japanese insurance company.

One of its conditions is that the investor can put the bond back to the issuer, at par, in the event of an earthquake above a certain point on the Richter scale and within a 100km radius of the city halls of four cities - and one of those is Osaka.

The tremors of the Kobe earthquake qualify, but Electrolux says it's "not sure where the epicentre is on the map".

A quick glance at the atlas suggests Electrolux will need some ingenious lawyers if it is successfully to make out that any part of Awaji Island - where the earthquake was centred - is further than 100km from Osaka.

Seamless drivell

If Wolford, the manufacturer of luxury ties, is going to have much success in appealing to women as a "lady share" once it floats on the Viennese and Parisian

stock exchanges, it might rather have to update its annual report - maybe by taking it into the twentieth century.

Here are some extracts from the 1993-94 report: "Woman" - the unending, timeless archaic and yet at the same time most modern, complicatedly simple, and fascinating phenomenon that shapes our culture and all we can do, awakens our senses, teaches us our responsibilities for our lives together, and grants us the gift of victory for the way things might be - or might become.

"Our destiny is bound up with that of women. No product can express this with greater sensitivity than Fatal (Wolford's new seamless tights).

"On the scale of a worldwide innovation, Fatal is something of a challenge which we have set ourselves, a challenge to improve still further what we are already familiar with, and at the same time to dare what is completely unknown."

Sorry guys: I'm wearing socks this year.

Newts' news

Peter Bernstein, executive editor of the magazine US News & World Report, along with his wife Amy, has collected the wit and wisdom of Newt Gingrich, the new Republican speaker of the US house of representatives. "Quotations from

Speaker Newt: The Little Red, White and Blue Book of the Republican Revolution" has 182 pages of items such as this, from Gingrich in 1988: "It's not altruism! I have an enormous personal ambition. I want to shift the entire planet."

"For a politician, he hasn't contradicted himself very much," says Bernstein.

Now tell us: is that a good or bad thing?

Lucky Lucena

Last year Brazil's election authorities and supreme court ruled Humberto Lucena should lose his senate seat for illegally using his printing press for his election campaign.

Congress has now annulled Lucena and other guilty senators: Lucena has been asked to pay the \$15,210 printing bill.

Sadly, he says he doesn't have that much money. So his fellow annulled have pooled their resources to pay the bill. Lucena's impoverished condition is regrettable. Still, his senatorial annual salary has just jumped more than 100 per cent, taking it to about \$140,000. Maybe times are looking up?

Grecian earner

George Zavros might have appeared to possess a prime

qualification for a rising conservative Greek politician.

He has good connections in Brussels - important in a country where EU hand-outs amount to five per cent of GDP - as well as a sound background in finance, having helped draft the second banking directive as a Commission employee.

Moreover, unlike other Euro-MPs for Greece's New Democracy party, Zavros also put in the hours back in Greece, commuting from Strasbourg to chair a committee trying to improve his country's antiquated banking system.

But his reward was to be dropped from his party's list of candidates at last June's Euro-election.

The preferred candidate was Nana Mouskouri, the folk singer who emigrated from Greece more than 30 years ago to make a career in France.

Sir Leon Brittan, his former boss at the Commission, has now helped Zavros, unloved at home, land the EU's ambassadorship to Slovakia. Must be nicer than sitting in Strasbourg.

Souked through

Calling all Welshmen and women.

Zap across to Cairo's Khan el Khalili bazaar, where you can buy a T-shirt on which is emblazoned "Save the Wales!" - which presumably can be found in the Swan sea.

Financial Times

100 years ago

Markets unsettled and nervous New York: Our market opened with a heavy tone today and continued weak practically through the session. The Street is becoming somewhat uneasy in consequence of the serious condition of the Treasury and considerable liquidation was effected during the day. The close was unsettled and rather nervous.

Bulgaria rumour denied The rumour that a new Bulgarian loan of four millions sterling is about to be issued is denied officially by the Bulgarian Minister of Foreign Affairs. Apparently Bulgaria is by no means in such a bad way as some people imagine.

50 years ago

Wishful thinking Markets are still unable to throw off the depression which started on Thursday last week when the capture of Warsaw by the Russians and the victorious forward sweep of our allies brought nearer the prospect of peace. Evidently wishful thinking saw a recovery close at hand but, as is not uncommon with wishful thoughts, this failed to materialise.

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U.S. dollars
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FINANCIAL TIMES

Tuesday January 24 1995

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Cost cuts hit Swedish childcare

Nurseries are feeling the strain of efforts to lower public spending

By Hugh Carnegie in Stockholm

At 10am at the Hölländergatan Daghem in central Stockholm, a scene repeated every day in thousands of similar nursery schools throughout Sweden is under way. In one room, a teacher kneels to help an apron-clad child painting at an easel; in another, with brightly painted murals splashed over the walls, three girls are playing happily. In the staff room some excited toddlers are being allowed to watch a video; in the kitchen, big pots of sausages are cooking for lunch.

At first sight, all seems as it should be in a childcare system that is at the core of Sweden's welfare state, virtually guaranteeing every child between the ages of one and six subsidised daycare. It is a system that underpins the almost full participation of women in the Swedish workforce and is the envy of mothers and fathers far beyond the country's borders.

But like almost every other part of the welfare structure, it is feeling the strain of the acute crisis in Sweden's public finances which has forced the Social Democratic government to propose

public spending cuts of some SKr50bn (\$37bn) since it returned to power last September.

Ms Kari Stenseth, headmistress at Hölländergatan, sighs wearily as she describes the impact of budgetary pressures that have made themselves felt for at least three years already. "You could say we were spoiled before," she says. "But all of a sudden it became very tough. I'm a teacher, not an economist, but more and more I have to think about money. Really, it is like I am running a small business now."

The pressure has come mainly as a result of savings forced upon the local municipalities - or kommuner - which run and subsidise the public daycare system. Ms Stenseth says the annual grants she received from the Stockholm kommune in 1994 of SKr165,363 for each 1-3 year old and SKr13,318 for each 4-5 year old were down by about SKr2,000 per child. Supplementary fees from parents of a maximum SKr2,000 per month per child (set by the state) were static.

As a result, Hölländergatan has had to take on more children from 30 five years ago to 40.

Meanwhile, professional full-time staff numbers have slipped from six, to four, with two on three-quarter time - reflecting a fall in the nationwide nursery teacher-child ratio from 1:4.2 in 1990 to 1:5.2 today.

"Things are different because we have so many more children," laments Ms Eva Eliot, one of Ms Stenseth's staffers. "We like to take the children to the forest, but we can't do that any more because of the numbers. And we have to have a more disciplined regime for the children, which I don't like."

Critics of the system, however, argue that it became bloated, inefficient and wildly expensive for a country whose budget deficit last year reached 13 per cent of gross national product, one of the highest in Europe.

A recent study by Professor Sharwin Rosen, a University of Chicago economist, estimates that in 1991-92, Sweden spent SKr50bn - or 2.5 per cent of GNP - on nurseries, child allowances and other subsidies of families with pre-school children. By 1993, 322,000 children were in day-care, more than double the number in 1983. Professor Rosen argues not

only that the system is expensive but also that it is inefficient, because it mostly shifts the burden of bringing up young children (and looking after the old) out of the home and into a community institution.

"If Swedish women take care of each other's parents in exchange for taking care of each other's children, how much additional real output comes of it?" Professor Rosen says.

But it is a mistake to assume that the days of universal childcare in Sweden are numbered. In fact, the right to a place in childcare for every child was enshrined in law only in 1993, under the previous government. The present government remains committed to maintaining publicly-funded daycare which may be subject to economies - but never dismantled.

Ms Gun Britt Andersson, a senior policy maker in the Social Department in Stockholm, is adamant that the pre-school childcare system must stay.

"It allows both parents to combine rearing children with productive work. I want it and a majority of the people in Sweden want it too."

Markets hit by investor nervousness

Continued from Page 1

some overseas portfolio holdings, depressing bond and stock prices.

Other Asian markets reflected Tokyo's mood, with investor confidence also hit by worries about the health of the Chinese leader Deng Xiaoping. In Hong Kong, the Hang Seng index dropped 310 points, or more than 4 per cent. In Singapore, the Straits Times Industrials Index fell 5.5 per cent.

European markets were also weaker. In London, the FT-SE 100 index fell 40.3 points, or 1.4 per cent, to 2,954.2, despite a surge in shares in Wellcome due to a \$2.4bn bid from pharmaceuticals company Glaxo. In Paris, the CAC-40 index fell 2.2 per cent, while in Germany, the DAX index dropped 1.4 per cent.

The wave of selling continued in the US, where the Dow Jones Industrial Average was 23.89 points down by 1pm New York time. Expectations of a further increase in US interest rates when the Federal Reserve's open market committee meets at the end of the month depressed investor sentiment. A fall in the 30-year US Treasury bond, which was just under half a point lower in early afternoon trading, resulted in similar declines in European government bond markets.

Latin American markets also suffered on the back of continued concern about potential Congressional delays to the rescue package for Mexico. In early afternoon trading, share indices in Argentina, Brazil and Mexico were 3-3 per cent lower.

Portuguese prime minister will not stand for re-election

By Peter Wise in Lisbon

Mr Anibal Cavaco Silva, the prime minister who inspired an economic renaissance in Portugal over the past decade, announced yesterday he would not stand for re-election in October.

His withdrawal marks the end of an era that began with the euphoria of an economic boom but ended with recession and the political stagnation of the centre-right party he brought to power.

Mr Cavaco Silva is often compared to Baroness Thatcher, the former British prime minister, for his political firmness and advocacy of free markets. His tough personality appealed to voters, who gave him two overwhelming mandates to lead Portugal out of political turmoil after the 1974 revolution and into the European Community.

Opinion polls indicate his Social Democrats (PSD) are unlikely to win a third overall majority. Mr Cavaco Silva is not given to conciliation and would not easily countenance heading a minority or coalition government.

Leadership crisis looms with no clear Social Democrat successor

His decision pitches the PSD into a leadership crisis and increases the chances of the opposition Socialist winning the election. A poll yesterday gave the Socialists 44.8 per cent of the vote and the PSD 39.8 per cent.

President Mario Soares, a Socialist, could bring the election forward if he decides that Mr Cavaco Silva's decision threatens to destabilise the government. The Socialists have called for an election in June.

Mr Cavaco Silva, 55, declined to say whether he would enter the race to succeed Mr Soares in a presidential election early next year. But his withdrawal from government was widely interpreted as being the first step. While he prefers the premiership to the president's limited role, he will be under strong pressure to run for president as the PSD's strongest contender.

Capital market analysts said

the political uncertainty could affect investment decisions and delay an economic recovery forecast for next year.

Mr Cavaco Silva's leadership was the overriding factor in the PSD winning overall majorities in 1987 and 1991, ushering in a period of political stability and economic growth unequalled since Portugal's return to democracy in 1974. But his popularity began to wane with the onset of recession in mid-1992. Recent scandals and allegations of influence-trading involving PSD figures have also disillusioned Mr Cavaco Silva, who is respected for his honesty and efficiency.

He has no clear successor. Until recently, the strongest candidate was Mr Fernando Nogueira, defence minister and number two in the government and the party. But his reputation has been tarnished by an armed forces scandal.

Glaxo makes £9.4bn bid for Wellcome

Continued from Page 1

anti-herpes treatment Zovirax, which accounts for 40 per cent of Wellcome's sales, is due to expire in 1997. Wellcome is having difficulty gaining approval for a non-prescription version of the drug. Several analysts expressed concern that combining two sets of problems might do nothing to

solve either. Glaxo argues that cost savings would make any difficulties "more manageable".

In its over-the-counter form, Zantac was due to be sold by Warner Wellcome, a joint venture between Warner-Lambert and Wellcome. The acquisition would mean a renegotiation of the arrangement with Warner-Lambert, said Sir Richard.

It would also mean rationalisation across the board, he said. Both companies have their US operations in North Carolina, and there is considerable duplication of research at Glaxo's Stevenage and Wellcome's Beckenham sites.

Wellcome's shares rose by 273p to close yesterday at 961p. But Glaxo's fell by 45p to close at 599p.

THE LEX COLUMN

Glaxo's Wellcome surprise

FT-SE Eurotrack 200:
1346.5 (-21.7)

Glaxo and Wellcome

Share prices relative to the FT-SE-A All-Share Index



Source: FT Graphics

price-earnings ratio of over 50 for the year to March 1996.

Kobe's reconstruction will, of course, benefit those companies that do the rebuilding and so feed through into increased consumption from the second half of 1995. But there must be concerns that the Japanese, reminded of their vulnerability to natural disaster, will now increase their savings. Memories of Kobe could offset the effects of increased government spending, so damping economic growth and adding to the market gloom. Japanese institutions are expected to be net sellers to improve profit figures for the year to March. Add in volatility in other world markets and current high valuations and the Tokyo market looks susceptible to further falls.

Cadbury Schweppes

Cadbury Schweppes' proposed acquisition of Dr Pepper is driven by straightforward strategic considerations. It would almost double Cadbury's size in the fast-growing non-cola segment of the North American soft drinks market.

The deal would however damage balance-sheet robustness under conventional measures. After taking on debt, it would leave the group with gearing of more than 100 per cent, even after capitalising £1bn of goodwill. Without taking the value of new brand names into account, gearing would be twice as high. Cadbury can legitimately argue that so-called cash-gearing is a more fitting measure of financial strength and its target of 4.5 times interest cover is reassuring. But it would still be an expensive deal: Cadbury would pay a multiple of 30

times historic earnings and its 1995 earnings would be diluted after taking into account rationalisation costs.

It is a bold move, but a risky one, made chancier by the possibility that Coca-Cola and PepsiCo would find ways of exacting retribution against a suddenly more threatening competitor. The task of digesting the acquisition could also distract management from growing problems at Coca-Cola Schweppes Beverages in the UK.

Northern Electric

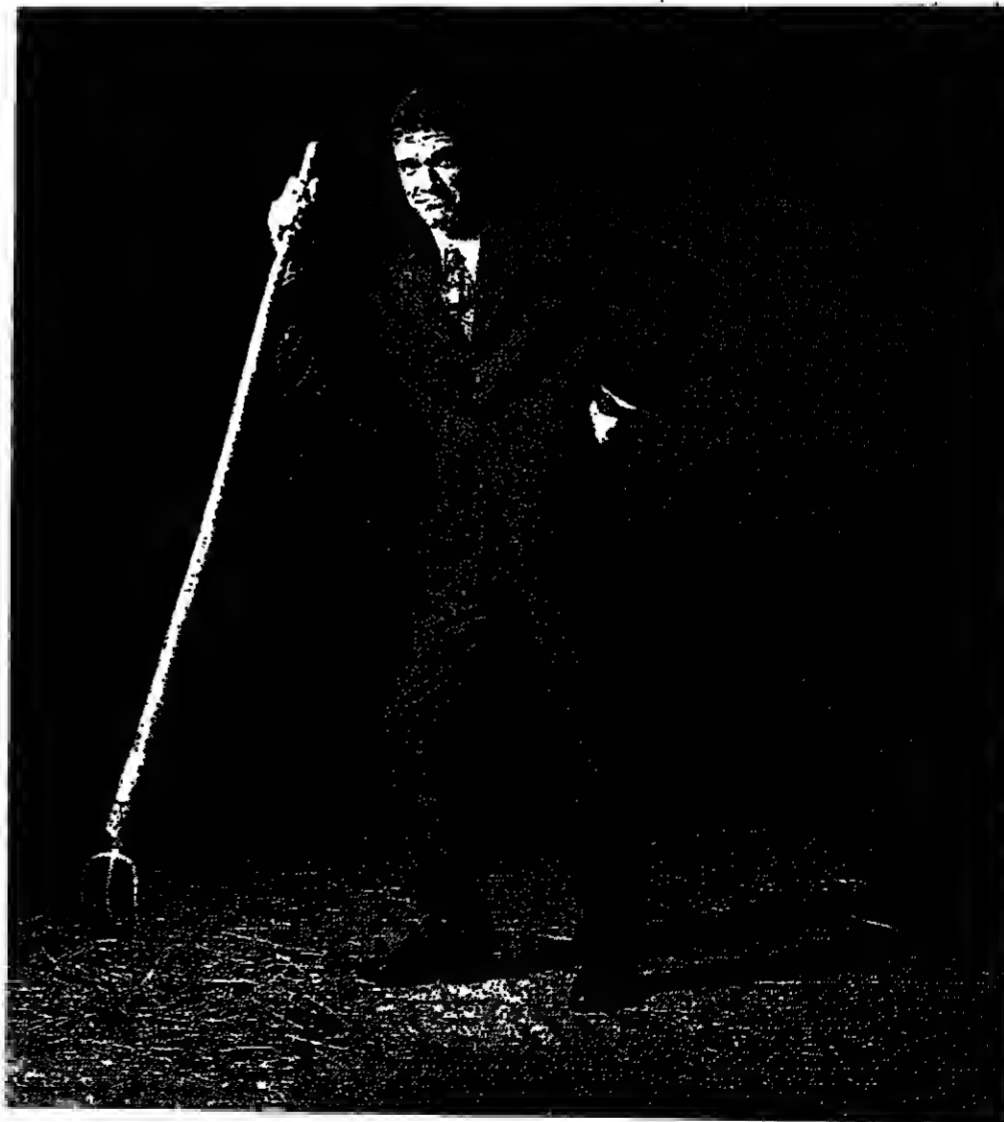
Northern's defence against Trafalgar House's £1.2bn bid is lacklustre. One line, evident in yesterday's document, involves sniping at the convertible stock and "Grills" Trafalgar is offering as part of the bid. Though these criticisms have drawbacks, Northern's criticism misses the point: if shareholders do not like the look of them, they can take £10.48 per share in cash. Another line of defence involves campaigning for the bid to be referred to the Monopolies and Mergers Commission. That can hardly endear Northern to shareholders. A referral would send its shares plummeting.

A better defence would be to spell out plans to enhance shareholder value through bigger share buy-backs or special dividends. Yesterday Northern threw shareholders a sop by promising to pass them any special dividend it receives from the National Grid prior to its flotation, but the company's ungarbled balance sheet shows it could do more. The huge tax advantages to Trafalgar of a takeover, estimated by Northern at over £2 a share, mean it can afford to increase its bid substantially. But Trafalgar has no incentive to do so unless Northern demonstrates more vigorously the value of independence.

Prudential

Mr Mick Newmarch's sudden departure from the Prudential may be no more than an extreme gesture of exasperation at the burden imposed by the UK's financial services regulatory regime. But yesterday's announcement, citing also Mr Newmarch's contentions with the Stock Exchange, was deeply muddling. Mr Newmarch's strategy for diversifying the Pru away from the UK life sector may have been well-executed and well-received by shareholders, but his conflicts with the regulators, as well as the manner of his exit, were counter-productive.

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tion of agriculture, of course. Which brings us back to those bull markets. L-Bank, Schlossplatz 10/12, D-76113 Karlsruhe, Germany. Telephone INT 721/150-0.

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FT WEATHER GUIDE

Europe today

Cold, moist air from the polar region will cross southern Scandinavia on its way to the Alps and eastern Europe. These areas will have a mixture of sun and cloud with widely scattered showers, some with hail or sleet. Light snow showers are expected in the Alps, but skies will clear later in the day. Sunny spells are expected over the British Isles, except for rain or soft hail showers in the north. The Mediterranean will be settled, influenced by high pressure over Spain. All the Mediterranean will have sunny periods and eastern and central sections will be particularly bright and sunny.

Five-day forecast

Abundant rain is expected in northern France and the western Alps. Temperatures will be mild, allowing the freezing level in the Alps to rise to about 2,000 metres. High pressure over Spain and northern Africa will continue to bring sunny conditions to the Mediterranean with temperatures reaching 20C in places.

TODAY'S TEMPERATURES

Location	Max	Min	Location	Max	Min	Location	Max	Min
Abu Dhabi	30	24	Beijing	3	-3	Caracas	28	18
Accra	30	24	Bombay	30	24	Cairo	28	18
Algiers	19	13	Buenos Aires	19	13	Cardiff	8	3
Amsterdam	10	7	Chengdu	10	7	Cebu	28	22
Athens	19	13	Dallas	19	13	Dhaka	28	22
Atlanta	19	13	Dar es Salaam	19	13	Doha	28	22
B. Aires	19	13	Delhi	19	13	Dubai	28	22
B. Ham	19	13	Hankow	19	13	Dubrovnik	13	8
Bangkok	30	24	Hong Kong	19	13	Edinburgh	8	3
Barcelona	19	13	Kuala Lumpur	19	13			

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Metro Consult of the Netherlands

Location	Max	Min	Location	Max	Min	Location	Max	Min
Madrid	13	8	Manila	28	22	San Francisco	13	8
Moscow	13	8	Medan	28	22	Seattle	13	8
Mumbai	28	22	Mexico City	28	22	Shanghai	13	8
Nairobi	28	22	Montreal	13	8	Singapore	28	22
Nassau	28	22	Munich	13	8	Stockholm	13	8
Nice	28	22	Norfolk	13	8	Strasbourg	13	8
Osaka	13	8	Osaka	13	8	Sydney	28	22
Paris	13	8	Perth	13	8	Taipei	28	22
Prague	13	8	Port of Spain	13	8	Tokyo	13	8
			Rangoon	13	8	Toronto	13	8
			Riyadh	28	22	Vancouver	13	8
			Rome	13	8	Vladivostok	13	8
			Sao Paulo	13	8	Washington	13	8
			Seoul	13	8	Wellington	13	8
			Singapore	28	22	Winnipeg	13	8
			Stockholm	13	8	Zurich	13	8
			Strasbourg	13	8			
			Sydney	28	22			
			Taipei	28	22			
			Tokyo	13	8			
			Toronto	13	8			
			Vancouver	13	8			
			Vladivostok	13	8			
			Washington	13	8			
			Wellington	13	8			
			Winnipeg	13	8			
			Zurich	13	8			

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INTERNATIONAL COMPANIES AND FINANCE

US energy groups' results better than expected

By Richard Waters in New York

A handful of big US energy groups reported better than expected results yesterday.

A rebound in earnings from the cyclical chemicals business enabled Exxon and Amoco to stave off most of the effects of weaker profit margins from refining and a sharp drop in natural gas prices. Texaco, which sold the bulk of its chemicals operations last year, suffered a higher decline in earnings.

Chemicals contributed \$14m to Exxon's earnings in the final three months of the year, and \$65m for 1994 as a whole (up from \$134m and \$41m respectively a year ago). Revenues in the division during the quarter were 26 per cent higher than a year before, at \$3.125bn.

This offset much of the decline in Exxon's earnings from oil and natural gas, which in the final quarter declined \$400m to \$1.11bn from a year before, and for the year as a whole were down \$1.15bn to \$4.17bn.

The company's upstream (exploration and production) earnings were hurt by lower natural gas prices in Europe and, particularly, in the US, due to a mild winter so far. Prices in the US have fallen by

more than a quarter since last October. Even though oil prices were higher in the quarter, compared with the final months of 1993, Exxon's upstream earnings fell 14 per cent from a year before, to \$728m. Full-year earnings dropped 16 per cent, to \$2.78bn.

Exxon's downstream (refining and marketing) profits, meanwhile, slid on weaker profit margins due to oversupply in the industry, falling 43 per cent to \$382m in the quarter and 31 per cent for the year as a whole, to \$1.368bn.

The latest quarter was boosted by \$425m of one-off credits, partly due to tax factors, compared with credits of \$113m the year before. For the year, one-off charges of \$433m were lower than the \$597m of charges in 1993.

Many of the same factors were apparent in figures from Amoco, which is both more dependent on natural gas production than many US rivals, with around 40 per cent of its production from this source, and relies more heavily on chemicals.

Amoco's earnings from chemicals jumped to \$188m on revenues of \$1.20bn during the quarter, up from \$83m on revenues of \$925m the year before. Full-year earnings climbed to \$383m from \$240m.

Upstream profits at Amoco during the quarter were off 20 per cent from the year before, at \$298m. Downstream earnings fell to \$102m from \$252m due to lower margins.

One-off gains in the latest period amounted to \$78m, compared with \$130m in the year-ago period. Leaving these aside, fourth-quarter results were down only \$8m from the year before, at \$458m.

Texaco's figures also reflected the poor conditions in the refining business, although higher production in its non-US exploration and production operations and a small profit from a disposal helped it to report higher earnings for the quarter.

Texaco's downstream businesses recorded earnings of \$180m in the quarter and \$617m during the year, down from \$233m and \$649m, respectively.

Exploration and production profits, meanwhile rose 48 per cent during the quarter, to \$222m, in spite of a full-year decline of 18 per cent for the year as a whole, to \$667m.

The company reported a gain of \$18m in the quarter from disposals, compared with a loss of \$10m the year before. For the full year, one-off charges were \$88m, down from \$174m in 1993.

	US ENERGY COMPANIES							
	Net Inc 1994	Net Inc 1993	Q4 1994	Q4 1993	1994	1993	Q4 1994	Q4 1993
	\$m	\$m	\$m	\$m	\$	\$	\$	\$
Exxon	5,100	5,280	1,900	1,500	4.07	4.21	1.53	1.20
Texaco	910	1,088	399	339	3.17	3.74	1.49	1.21
Amoco	1,789	1,820	536	584	3.60	3.66	1.08	1.17
Ashland Oil*	-	-	35	58	-	-	0.50	0.83

*Adjusted Q4 first quarter, fiscal 1995. Earnings per share fully diluted.

Asia-Pacific aids Digital advance

Digital Equipment, the US computer group, was helped by strong growth in the Asia-Pacific region in its unexpected return to profit announced last week. Mr Bobby Choonavala, regional president said, Reuter reports from Hong Kong.

That second-quarter profit would help the US computer maker pursue its growth in the region, he said.

Digital surprised analysts

last week with an \$18.9m profit in second-quarter fiscal 1995, its first profit since the fourth quarter of 1993. It lost \$72.1m in the same period last year. Global revenues rose 7 per cent to \$3.47bn.

Asia-Pacific gave a big boost with revenues up 26 per cent year-on-year, 41 per cent for products and 13 per cent for services, accounting for about 15 per cent of global revenue.

Mr Choonavala said he hoped to improve on the 20-25 per cent annual growth recorded in recent years in the current year. Regional profit figures were not available, but Mr Choonavala noted the region had been in the black during the years the company overall was awash in red ink.

Sales for banking and manufacturing applications were particularly strong.

Fox deal challenges the US establishment

Reuters may gain significant revenue from the link, writes Alice Rawsthorn

When the affiliates of Fox Television gathered in Las Vegas this weekend, they not only saw the usual previews of its summer shows, but were also told that Fox had clinched a deal with Reuters, the international information group, to co-produce an ambitious new service in the US.

The Reuters deal, details of which have not been disclosed, forms an important part of Fox's long-term strategy of challenging the "big three" US television networks - ABC, CBS and NBC - by creating a comprehensive US television service.

For Mr Rupert Murdoch, whose News Corp owns Fox Television, it is intended as the first of a series of joint ventures between Reuters and his international broadcasting interests.

Reuters stands to gain as much as Mr Murdoch. It has been building up its television interests for the past two years. The liaison with Fox and, possibly, with other Murdoch broadcasting businesses, could become a significant

source of revenue. It also offers an opportunity for Reuters, aided and abetted by Mr Murdoch, to mount a formidable challenge to Cable News Network, the US "big three" and other international broadcasting organisations in television news.

Although Reuters is one of the world's leading news agencies, it has traditionally used its international network of journalists to supply newspapers and magazines.

It started to develop its television interests two years ago when it took control of Visnews, the broadcast news agency in which it had held a minority stake, by buying out NBC and the BBC.

Reuters then integrated the Visnews operation (renamed Reuters Television) into its editorial offices. This enabled it to expand the original network into a larger and more sophisticated international news-gathering operation at relatively low cost.

The timing was perfect. Reuters had diversified into television at a time of rapidly changing technology. The new

generation of television cameras were lighter, more mobile and easier to operate than their predecessors, eradicating the need for large, expensive crews.

Similarly, the availability of satellite feeds made it faster and cheaper to send images.

Reuters has invested heavily in equipping its network with the latest technology. Mr Alastair Smellie, media analyst at Lehman Brothers in London, believes new technology has not only given Reuters "significant cost advantages" over its older-established rivals but has made its television news service "very fleet of foot".

The group has since become a regular source of film footage for established television news organisations. It has also secured contracts to supply news services to television companies such as GMTV, the UK breakfast station, and Ostankino 1 in Russia.

The Fox deal is its most ambitious to date, a team of Fox editors based at Reuters' US headquarters in Washington DC will assemble a daily US news service from Reuters'

coverage of international events, local input from the Fox affiliates and national reports from Fox and Reuters' US reporting teams.

This arrangement will enable Mr Murdoch to enhance Fox's programming by providing a world-class news service, without the considerable cost of creating one from scratch.

The cost of Sky News, the loss-making 24 hour satellite news channel relayed by BSkyB, the UK satellite company in which Mr Murdoch and Pearson (the parent company of the Financial Times) have stakes, is believed to be \$20m (\$27.7m) a year.

Mr Murdoch now hopes to replicate the Fox deal in other parts of the world. BSkyB has for some months been in talks with Reuters over plans to set up a joint news operation. This would enable BSkyB, which had previously considered joining forces with ITN, to cut the cost of running Sky News.

Sky News would also be able to use Reuters' international capability to develop a European news service, thereby

challenging BBC World, the BBC's 24-hour satellite news service and, possibly, ITN's role as sole news supplier to ITV and Channel 4 in the UK.

Mr Murdoch is also thought to be keen to strike a similar deal between Reuters and Star TV, his Asian satellite service. Star last year was forced to stop its news service to China and Taiwan when the Chinese authorities insisted that it drop its feed from the BBC.

Star set a precedent for a Reuters deal earlier this month when it reached agreement with four of the world's largest record companies - Japan's Sony, Warner of the US, the UK's Thorn-EMI and Bertelsmann of Germany - to take equity stakes in Channel [V], its music video channel.

The announcement of the Fox transaction may help BSkyB and Star to conclude their discussions with Reuters.

Other international news services - such as CNN, the BBC and the US "big three" - have been left to assess the impact of the marriage between Reuters and the indomitable Mr Murdoch.

Chemical side lifts Lyondell earnings

By Tony Jackson in New York

Lyondell Petrochemical, the US producer of commodity petrochemicals, saw its net earnings rise to \$223m last year, against \$4m before special items in 1993.

The increase was due to sharply higher chemical volume and prices, partly offset by lower earnings from oil refining.

The company said the final quarter, in which earnings rose from \$14m to \$103m, was the best fourth quarter since the company went public in 1988.

Lyondell was spun off from the oil company Atlantic Richfield, which still holds a 49.9 per cent stake.

Combined sales volume of ethylene, propylene and polymers rose 13 per cent in the year to 6,060m lbs, and by 16 per cent in the last quarter.

The company said it had raised prices for almost all products, in the case of ethylene by around 15 per cent. Further rises are due this month.

The refining operation was hit by poor industry conditions, as well as by closures for maintenance in the final quarter.

Refining profits fell by a third to \$54m for the year, and in the fourth quarter there was a \$1m loss.

Operating margins in petrochemicals rose from 3 per cent in the year to 20 per cent, and to 30 per cent in the final quarter.

Net margins for the group in the year rose to 5 per cent. This was still well below the peak year of 1988, when net margins were almost 13 per cent.

Lyondell's shares rose 3 1/2% to \$24 in early trading.

Laidlaw buys Mayflower for \$157m cash

By Bernard Simon in Toronto

Laidlaw, the Ontario-based waste services and transportation group, will expand its passenger services business by almost one-third with the purchase of the US-based Mayflower Group for US\$157m cash.

Mayflower has extensive interests in the school bus and public transport sectors, with annual revenues of about \$250m.

The purchase, which is expected to close around the end of the first quarter, excludes Mayflower's moving and storage businesses. Laidlaw earlier this month won the exclusive right to negotiate with Mayflower.

The Mayflower deal will add 6,500 vehicles to Laidlaw's 22,000-strong school bus fleet, and will more than double Laidlaw's public transport operations.

Bell Atlantic in the red after charges

By Tony Jackson in New York

Bell Atlantic, the Philadelphia-based regional telephone company, reported "solid" results for last year, with underlying net earnings up 10 per cent at \$1.5bn. However, after extraordinary charges totalling \$2.2bn, there was a net loss of \$755m.

The company had already announced charges of \$2.15bn for accounting changes designed to reflect its move away from a regulated environment.

It also made a charge of \$19m in the final quarter for the effect of Mexican devaluation on its 42 per cent holding in Grupo Iusacell, the Mexican mobile phone company. The company said it still believed Iusacell represented "a significant long-term opportunity".

In the final quarter, stated earnings were down 6 per cent

at \$315m. On a comparable basis, earnings per share were up 6 per cent at \$0.76. "We believe that we are positioned for record earnings in 1995," Mr Raymond Smith, chairman, said.

Revenues from the company's traditional local network rose by 4 per cent in the year, with the number of access lines up 3 per cent. Revenues from cellular phones rose 41 per cent, with the number of customers up 58 per cent at 602,000.

In the course of the year Bell Atlantic agreed to merge its domestic cellular business with that of Nynex, the New York-based Baby Bell, and formed a further partnership with US West and AirTouch to bid for wireless licences in the current US government auction.

It also teamed with Nynex and Pacific Telesis to enter the video market.



Enskilda Corporate has changed its name to Enskilda as from 1 January, 1995

Leader in Nordic Debt and Equity Financing

Avesta Sheffield

US\$ 268,750,000
Multi-Currency Revolving Credit Facility

January 1994
Joint Co-ordinator

SVEDALA

Svedala Industri AB

US\$ 105,000,000
Multi-Currency Term Loan

January 1994
Joint Arranger

REPOLA

US\$ 350,000,000
Term Loan Facility

April 1994
Joint Arranger

SEK

AB SVENSK EXPORTKREDIT
Swedish Export Credit Corporation

SEK 150,000,000
Equity Lending 1994/1995

December 1993
Arranger

OKS AKTIEBOLAG

SEK 200,000,000
Bonds 1994/1999

April 1994
Arranger

VATTENFALL

Guaranteed by Vattenfall AB

SEK 5,000,000,000
Medium Term Note Programme

May 1994
Arranger

Höganäs AB

Initial Public Offering raising SEK 1,911 million

April 1994
Joint Lead Manager

SKANSKA

Skanska AB

Placing of Shares held by Prosper Försäkring AB raising SEK 2,619 million

April 1994
Lead Manager

Autoliv

Autoliv AB

Initial Public Offering raising SEK 4,289 million

May 1994
Lead Manager

Pharmacia

Pharmacia AB

International Offering of shares raising SEK 9,965 million

June 1994
Joint Lead Manager

INVESTOR

AB Investor Group Finance

US\$ 450,000,000
Multi-Currency Revolving Credit Facility

October 1994
Arranger

City of Gothenburg

Yen 5,000,000,000
Privately Placed Loan Facility

January 1994
Arranger

TRELLEBORG

US\$ 350,000,000
Multi-Currency Revolving Credit Facility

July 1994
Joint Arranger

INCENTIVE

INCENTIVE TREASURY

SEK 750,000,000
Bonds 1994/1999

June 1994
Joint Arranger

STOCKHOLMSLEDER AB

Guaranteed by The Kingdom of Sweden

SEK 2,000,000,000
Commercial Paper Programme

June 1994
Arranger

VÄSTERÅS STAD

SEK 200,000,000
Bonds 1994/2004

June 1994
Arranger

MoDo

Mo och Domjö AB

Private Placement SEK 500,000,000
Bonds 1994/2004

December 1994
Arranger

Stockholm • Gothenburg • Malmö • Oslo • Helsinki • London • Frankfurt • Hamburg • Paris • Madrid • Budapest • Moscow • Warsaw • New York
Mexico City • São Paulo • Hong Kong • Singapore • Tokyo • Bangkok • Beijing

Enskilda is a division of Skandinaviska Enskilda Banken

INTERNATIONAL COMPANIES AND FINANCE

Loss on financial operations hits profits at BBV

By Tom Burns
in Madrid

Pre-tax profits at Banco Bilbao Vizcaya, the Spanish retail banking group, fell by 6.7 per cent to Ptas14.8bn (875m) last year. The bank was hit by heavy trading losses incurred by its treasury department which dragged down improved core banking earnings.

In 1993 BBV posted pre-tax profits of Ptas12.7bn.

After minorities, the bank reported a 1993 net group profit of Ptas7.2bn, 1.8 per cent up on the previous year.

Mr Emilio Ybarra, chairman, said Ptas4.0bn of the net income would be distributed to shareholders, against Ptas3.8bn in 1993, and that the dividend would be lifted by Ptas5 to Ptas14.7.

Mr Ybarra said net losses from financial operations, mainly linked to last year's volatile bond market, totalled Ptas3.2bn, against the Ptas5.0bn earned from trading in 1993.

The losses were partly offset by a 13.5 per cent rise in operating profit to Ptas10.4bn, by recoveries from bad loans and lower provisions.

Mr Ybarra said that last year had seen the consolidation of a recovery in BBV's core banking business that had set in

during 1993. He added that if there were no further trading losses this year, the banking group's profits could strongly improve in 1995.

Net interest revenue improved by 2.1 per cent last year to Ptas338.5bn, income from fees was up by 11.2 per cent to Ptas11bn and operating costs fell by 1.3 per cent to Ptas268.9bn.

Total assets increased last year by 12.3 per cent to Ptas13,065bn to make BBV the largest retail bank in Spain in terms of assets.

The buoyant core banking results form the basis for what Mr Ybarra called a 1,000 day strategy to lift BBV's pre-tax profits to Ptas75bn by 1997.

Over the next three years Mr Ybarra wants to increase the banking group's dividend per share to Ptas250 and its share value to Ptas4,500, up from the current Ptas2,250.

The strategy involves a rationalisation of the group's banking divisions as well as the opening of 250 new branches. This will compensate for the upsets sustained by BBV last year, when it failed to acquire the Banesto banking group and was outbid in the battle to obtain a licence to operate a second mobile telephone network.

Siemens issues gas turbine challenge

By Andrew Baxter

Siemens, the German industrial group, has thrown down a challenge to its rivals in the world power station market by unveiling what it claims is the world's most efficient gas turbine.

The announcement is likely to intensify the already fierce competition in the market for combined-cycle (gas and steam) power stations, which have taken 37 per cent of all fossil-fired power station orders this decade.

Siemens and its competitors in the industry - the market leader General Electric of the US, ABB, Westinghouse and GEC Alsthom - are all spending heavily to raise the thermal efficiency of their gas turbines.

Very small increases in efficiency can save operators millions of dollars in fuel costs over the lifetime of a power station.

Launching its new 3A series of turbines in Berlin, where the machines are built, Siemens said that during trials its V84.3A machine had achieved an electrical output of 170MW and efficiency in simple-cycle of 38 per cent.

This indicated a "world record" of 58 per cent efficiency in combined cycle - which uses the waste heat from the gas turbine to power

a steam turbine. Siemens said the latest turbines were 1.5-2 percentage points more efficient than its existing range.

Developed at a cost of DM100m-DM200m (\$65.3m-\$130.7m) they mark an important development for Siemens. Although the basic design derives from previous models, the German company has been able for the first time to use aero-engine technology in its gas turbines, as has long been the case at GE.

This is the result of an important technology exchange agreement signed in 1990 between Siemens and Pratt & Whitney, the US aero-engine producer. As a result, the German company was able to introduce improved blade designs, materials and cooling techniques into the turbine section of the machine, and a new compressor design derived from F&W's PW4000 aircraft engine.

The new turbines range from 70MW to 340MW, giving a maximum possible 358MW in combined cycle.

Siemens said this was the largest any company could offer in a single combined-cycle unit.

It has already booked orders for the new gas turbines, to equip power stations in Portugal and Germany, and said it had received letters of intent from two US customers.

Nomura plans Czech, Slovak investment fund

By Vincent Boland
in Prague

Nomura International, the Japanese securities house, plans to set up an investment fund of Czech and Slovak shares by transferring assets from VUB Kupon, Slovakia's biggest privatisation fund in which it holds a 31.4 per cent stake, to a new vehicle aimed at foreign investors.

Under the proposal, approved at an extraordinary general meeting of VUB Kupon's shareholders in Bratislava yesterday, Nomura will redeem its stake in the fund and acquire the same percentage of its assets.

VUB Kupon's portfolio of shares in leading Czech and Slovak companies is worth about \$400m.

The assets will be placed in an international Slovak and Czech investment fund which will be jointly managed by Nomura and VUB Invest, the investment management arm of Vseobecna Uverova Banka, the leading commercial

bank in Slovakia.

Nomura paid \$68m for its stake in VUB Kupon in September last year in one of the biggest foreign investments yet in Slovakia.

It has since been looking for ways to reduce the gap between the net asset value of the portfolio and the market value of VUB Kupon's shares, which are listed on the Bratislava stock exchange and trade at a discount of up to 40 per cent.

The proposed changes end weeks of speculation about Nomura's plans for VUB Kupon, and follow heavy trading in the fund's shares in recent weeks.

An over-the-counter trade late last week saw VUB Kupon shares worth about \$90m (\$2.94m) change hands at a level substantially above the official closing price of \$550.5 a share.

Nomura will acquire either 31.4 per cent of each of VUB Kupon's shareholdings, or 31.4 per cent of the value of the portfolio in cash.

NEWS DIGEST

Swissair seeks shareholding in Belgian carrier

Swissair wants to buy a stake of 49 to 49.9 per cent in Sabena, Belgium's state-run national carrier, Mr Elio di Rupo, the Belgian transport secretary, confirmed yesterday, writes Emma Tucker in Brussels.

However, his suggestion that the Swiss airline was interested in becoming a majority shareholder in Sabena was denied by Swissair which pointed out that such a move would strip the Belgian airline of its status as a European Union carrier.

At a lunch yesterday Mr di Rupo said that to secure its future, Sabena would need between BFr5bn (\$160m) and BFr6bn of new capital over the next few months, adding that so far the only serious proposition had come from Swissair.

The minister said the Belgian government was not allowed to inject any more aid into the ailing airline, because this would contravene EU competition rules.

Swissair has been eager to secure a foothold in the EU's deregulated single aviation market. It is also worried that its non-EU status is resulting in unfavourable treatment at important European hubs.

"It would not make sense to buy a majority stake in an EU carrier because then it would cease to be just that," said a spokesman for Swissair yesterday.

The Belgian government cannot go ahead with the sale until Air France has relinquished its interest in Sabena. Air France owns two-thirds of Finavia, which in turn holds 37.5 per cent in Sabena. However, the two airlines are understood to be nearing a divorce agreement. The French carrier, undergoing a far-reaching restructuring, initially resisted the sale of its stake but shifted its position after it came under strong pressure from the Belgian airline.

Randgold mines make steady progress

Randgold, the troubled South African gold producer, has reported generally satisfactory results for its mines during the quarter ending in December, but pressure on margins across all operations remains tight, writes Mark Suzman in Johannesburg.

East Rand Proprietary Mines reported a rise in after-tax profits to R11.3m (\$3.2m), up from R8.5m previously as production remained almost unchanged at 1,687kg. But the figures continue to fall short of estimates made at the time of the company's 1993 rights issue.

Durban Roodepoort Deep, the mine threatened with closure by previous management, cut its net loss to R4.1m from R20.5m as the planned downsizing continued and production dropped to 293kg from 315kg in the September quarter. The company also confirmed that an agreement had been reached on a proposed merger with the neighbouring Rand Leases mine. Details will be announced next month.

In spite of lower production resulting from a cage accident in its Mantespruit shaft, Harmony saw after-tax profit rebound to R2.8m from R1.8m as the effects of last quarter's hedging cancellation costs disappeared from the bottom line.

However, continued low yield at Blyvooruitzicht, which slipped to 5.3 grammes/tonne from 5.64 grammes/tonne, caused a drop in production, leading to a sharp rise in the mine's working loss to R8.6m, up from R1.6m. As a result, the mine has been forced to retrench 3,000 workers and management said it is considering merging, selling or downsizing the mine's underground operations.

Dolphin buys stake in Greek cruise operator

Dolphin Cruise Line, a Greek-owned company based in Miami, is to acquire a 33 per cent stake in Epirotiki Cruise Lines, Greece's biggest cruise ship operator, which is restructuring to meet sharpening competition in the Mediterranean and Caribbean markets, writes Kerin Hope in Athens.

Under the restructuring plan, Epirotiki's existing US partner, Carnival Corporation, is to raise its stake in Epirotiki from 43 to 49 per cent. Epir Holdings, controlled by the Potamianos family which founded Epirotiki, will retain the rest of the company's shares.

Epirotiki, which operates nine Greek-registered ships, is the leading cruise operator in the eastern Mediterranean. It carries more than 300,000 passengers a year, mainly on Aegean island cruises, but also operates winter cruises in the Caribbean.

A company official said the price of Dolphin's stake in Epirotiki was still being negotiated but would be covered through the transfer to Epirotiki of cruise vessels belonging to Dolphin and its sister company, Majesty Cruise Line.

The two companies, owned by Mr Paris Katsoulis, a former cruise ship captain, operate four vessels, mainly in the Caribbean. Carnival Corporation, listed on the New York Stock Exchange, operates 21 ships and claims to be the world's largest cruise operator in terms of passengers carried. It focuses on the Caribbean, where it operates four "mega-ships" capable of carrying 2,000 passengers each.

Property warning hits Suez shares

Shares in Suez, the French financial services and investment group, dropped more than 5 per cent yesterday following a warning over the weekend about heavy additional property losses in its 1994 results, writes Andrew Jack in Paris.

Mr Gérard Worms, chairman, said in a

French radio station interview at the weekend that the group results would be "very modest" and that there would be an impact on the full year accounts due to property losses of FF2.5bn to FF3bn. He said total losses from property in the group would reach FF15bn (\$2.57bn) from its portfolio of FF90bn.

"The [property] market, alas, has not recovered," he told Radio Classique. He added that the group was having to pay back FF600m following adjustments in the acquisition of its controlling stake in Victoire by Commercial Union, the UK's largest insurance group, last year.

He said that the results excluding property and the Victoire sale would be about FF3bn.

Stanbic buys Barclays' Lesotho interests

Stanbic, the South African banking group, has announced that it has acquired Barclays Bank's interests in Lesotho, writes Mark Suzman. The takeover, which has been approved by both South African and Lesotho authorities, will take effect on February 1 and the bank will be renamed Stanbic Lesotho.

The acquisition marks a continuation of Stanbic's expansion in Africa and the group, South Africa's second largest, now has representation in 13 African countries. Lesotho was previously the only southern African country in which Stanbic was not represented.

Mr Eddie Theron, group managing director, said the move would help raise Stanbic's profile on the continent. "We believe this acquisition will further strengthen the group's capacity for facilitating trade flows in Africa," he said.

Australian Woolworths rings up record sales

Woolworths, Australia's largest food retailer, yesterday said it achieved a record sales of A\$6.5bn (US\$5.3bn) in the half-year to January 8, wrote Emilia Tagaza in Melbourne.

The figure is 11.8 per cent up on sales of A\$6.1bn achieved in the corresponding period of the previous year. The company said comparable sales posted an average sales increase of 0.5 per cent for the period, "a good performance in an extremely competitive market."

The company forecast that profits for the period would be "ahead of the rate of increase in sales."

Woolworths' food group recorded total sales of A\$5.8bn during the period while the general merchandise group recorded a 12.3 per cent rise in sales to A\$255.5m.

CBOE gears up for warrant offerings

The Chicago Board Options Exchange has formed a new Capital Markets Division and is gearing up for its first-ever warrant offerings, writes Laura Morse in Chicago.

The move, which is an attempt to win a larger share of the market for structured financial instruments, puts it in direct competition with the American Stock Exchange, which pioneered listed trading of privately-issued warrants.

The CBOE is the world's largest marketplace for standard options on shares of individual companies and on broad-based equity indices such as the Standard and Poor's 100 and the FTSE 100. These options, which give its owners the right, but not the obligation, to buy or sell a particular security at a specific price typically have expiration periods of two years or less and are issued by the exchange.

Warrants resemble options, but are issued by dealers, generally have expirations of three years or more, and can be highly structured.

The CBOE, meanwhile, has hired Mr Ben Krause, formerly the head of the American Stock Exchange's Capital Markets Group, to be senior managing director of its new division.

Australis Media in pay-TV launch

Australis Media said it planned to launch its pay-television service, Galaxy TV, on Thursday, to become the first pay-TV broadcaster in Australia. Reuter reports from Sydney. It said Galaxy's first channel to go on air would be the Premier Sports Network, which will feature international and local sports.

The company said it has also contracted with NBC, the US broadcaster, to supply news for its news channel. This channel, ANBC, which also starts on Thursday, will use NBC's business news service and other news, features and market reports from CNBC in the US, Europe and Asia.

Australis said ANBC would be the first international business and financial news channel available to Australia. It said the service would be live for 10 hours each weekday from Hong Kong and other important financial centres throughout Asia.

Yong resigns from Berjaya Group

Berjaya Group and Berjaya Industrial said Mr Yong Teck Meng had resigned as group executive director with effect from January 20, AP-DJ reports from Kuala Lumpur.

In a statement, the Malaysian conglomerate controlled by Mr Vincent Tan, said Mr Yong has also resigned as director of Berjaya Leisure, Berjaya Singer, Unza Holdings and Top-Group Holdings in a separate statement, Berjaya Textiles also announced Mr Yong's resignation as director of the company.

Mr Yong, together with another executive of the Berjaya Group, was suspended last December for involvement in an unauthorised interest-rate swap transaction which is said to have incurred a loss of US\$14m.

FIDELITY FUNDS
Société d'Investissement à Capital Variable
Kansallis House - Place de l'Etoile
L-1021 Luxembourg
RC Luxembourg B 34036

NOTICE OF ADJOURNED EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an adjourned Extraordinary General Meeting of Shareholders of Fidelity Funds ("the Corporation") will be held at the registered office of the Fund in Luxembourg on Wednesday February 8, 1995 at noon to consider the following proposed amendments to the Articles of Incorporation.

AGENDA

1. Deletion in paragraph 2 of article 22 of the Articles of Incorporation of the terms "in Luxembourg" in the two places where they appear.
2. Amendment of paragraph 9 "Valuation Regulations", sub-paragraph B(ii) of article 22 of the Articles of Incorporation so that it reads as follows:
"If securities which are traded on stock exchanges are to be valued at the last available closing price on the Valuation Date for if there has been no sale, at the closing bid price quoted on the stock exchange which is normally the principal market for such security, or, if the Board so decides, at the last available price at the time when the valuation is carried out, or, in unusual circumstances of trading activity such that the Corporation considers that such price does not reflect fair market value, at fair market value in the opinion of the Corporation".
3. Deletion in article 22 of the Articles of Incorporation, paragraph 9, subparagraph B(i) of the term "closing".

Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares by US persons or of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may attend and vote at the meeting or may appoint a proxy to attend and vote. Such proxy need not be a shareholder of the Fund.

Resolutions on the agenda of the Adjourned General Meeting will be adopted if voted by two thirds (2/3) of the shares present or represented.

This meeting is an adjournment of the Extraordinary General Meeting held at the registered office of the Corporation on January 6, 1995 due to a lack of quorum as only 42,473,587.16 shares were present or represented out of 857,150,758.12 outstanding shares as at the close of business on January 3, 1995.

Holders of Registered Shares may vote by proxy by returning to the registered office of the Fund the form of registered shareholder proxy sent to them.

Holders of Bearer Shares who wish to attend the Extraordinary General Meeting or vote at the Meeting by proxy should contact the Fund, or one of the following institutions:

in Luxembourg
Fidelity Investments Luxembourg S.A.
Kansallis House
Place de l'Etoile, B.P. 2174
L-1021 LUXEMBOURG

Bankers Trust Luxembourg S.A.
14, Bd F. Roosevelt
L-2450 LUXEMBOURG

in the United Kingdom
Fidelity Investments International
Oakhill House
130 Tonbridge Road
Hillesholme
Kent TN 11 9DZ
United Kingdom

in Ireland
Bradwell Limited
41-45 St. Stephen's Green
DUBLIN 2
IRELAND

in Germany
Bankhaus B. Metzler seel.
Sohn & Co. KGaA
Große Gallusstraße 12
D-60311 Frankfurt am Main

in Switzerland
Union Bancaire Privée Genève
96-98, rue du Rhône
CH-1211 GENEVE 1

in France
Banque Indosuez
96, Boulevard Houssmann
F-75371 PARIS Cedex 08

in The Netherlands
Fidelity Investments International
Alexander Boerstraat 10
NL-1071 KN Amsterdam

in Hong Kong
Fidelity Investments Management
(Hong Kong) Limited
16th Floor, Citibank Tower
3 Garden Road, central Hong Kong

in Austria
Creditanstalt-Bankverein
Schotengasse 6
A-1010 Wien

To be valid, proxies must reach the registered office of the Fund on the 3rd February 1995 at 17.00 pm (Luxembourg time) at the latest.

On behalf of the Board of Directors



TEMTEX
Tianjin, China

Subsidiary Office:
Houston

Representative Office:
Moscow

Shinex China Limited
A Bermuda Limited Liability Company owned by
McGhee International Group, L.L.C.
Shinex Energy Management, L.L.C.
China Partners I, Ltd.
Libra Investments, Inc.

USD 8,750,000 Cash
USD 5,400,000 Notes Payable, 1996

and

Tianjin Electric Motor General Factory
USD 28,500,000 in Assets Contributed

Total Capitalization USD 42,650,000

Financial Advisor to the Joint Venture:
ABN AMRO Bank (Deutsche) A.G.

The Financial Times plans
to publish a survey on
World Taxation
on Thursday, February 9th

The Survey will review the Taxation System worldwide and examine the challenges it will face in 1995 and the implications for the International business community. The Survey will reach an estimated International readership of 1million.

For and editorial synopsis and information on advertising opportunities please contact:

Melanie Miles
Tel: (071) 873 3348 Fax: (071) 873 3054

FT Surveys

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For the Interest Period 19th January, 1995 to 19th April, 1995, the Notes will carry a Rate of interest of 6.6875 per cent of £100.00 per £100.000 principal and £1,048.97 per £100,000 principal payable on 19th April, 1995.

Based on the Luxembourg Bank Exchange.

Bankers Trust Company, Luxembourg Agent Bank

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In accordance with the provisions of the Notes, notice is hereby given that the Notes will carry an interest rate of 0.625% per annum from the period 2nd January, 1995 to 24th April, 1995 at a coupon amount of U.S. \$147.47 for the U.S. \$100,000 denomination and U.S. \$4,150.63 for the U.S. \$100,000 denomination and will be payable on 24th April, 1995 against the order of Citicorp N.Y. JP.

Bankers Trust Company, London Agent Bank

Blyvooruitzicht Gold Mining Company Limited
Reg. No. 050774508
Harmony Gold Mining Limited
Reg. No. 05082093
(Both companies incorporated in the Republic of South Africa)

Copies of the above mentioned companies' interim reports have been issued today and are available from the UK Secretaries:

Vladimir Corporate Services Limited,
19 Charterhouse Street,
London EC1N 6QP.

24 January 1995

COMPANY NEWS: UK

Options windfall from merger may average nearly £10,000 a head

Wellcome staff could net £170m

By David Wighton and William Lewis

Wellcome directors and staff will make a record profit of more than £170m (£265m) on share options if the £9.4bn bid from Glaxo is successful.

The windfall is equivalent to almost £10,000 a head across Wellcome's 17,500-strong workforce. However, the gains will be concentrated among direc-

tors and senior executives.

One of the biggest beneficiaries is likely to be Mr John Robb, who was appointed chairman and chief executive in 1993. According to Wellcome's last annual report, Mr Robb had 250,756 share options. Mr Philip Tracy, another Wellcome director, held 172,670.

Wellcome had 45m share options outstanding at the end

of August 1993, more than 5 per cent of the issued equity.

Although many are not exercisable for some years, it is thought all will be triggered by a change of control, at the bid price, costing Glaxo more than £460m gross. The total exercise cost at the last balance sheet date was £278m, which will flow back into Wellcome's balance sheet. This will leave Glaxo with a net cost of £172m.

Of the 45m share options outstanding at August 31 1993, more than 12m were in the executive share option scheme. The prices ranged from £1.20 to £10.58. The US management stock option plan covered 9m and the US employee stock purchase rights plan a further 13m. There were 2.6m shares under the UK share scheme at prices ranging from £1.29 to £7.11.

Christies reorganises Asian interests

By Joan Gray

Christies International, the fine art auction house, is to restructure its operations in Asia, one of its most rapidly growing areas of activity.

It has agreed with John Swire, owner of Cathay Pacific, the Hong Kong-based airline, that it will acquire Swire's 40 per cent holding in Christie's Swire, giving it 100 per cent ownership.

The initial consideration is £1.2m (\$1.9m) cash, including repayment of loans. A further cash consideration of up to £4m may be payable if Christie's sells shares in the business in the next four years.

The auction businesses in Hong Kong and Taiwan are currently trading under the name of Christie's Swire will now operate under the name of Christie's.

Christies has been concentrating on developing its presence in east Asia, one of the fastest-growing art markets. Spring sales in Hong Kong grew by 50 per cent last year against a 19 per cent growth in auction sales overall for the six months to June 30.

It became the first western auction house with a presence in China with the opening of its Shanghai office last year, and is considering further investment.



Shock tactics: David Morris takes to the streets with his message

Northern Electric makes special dividend promise

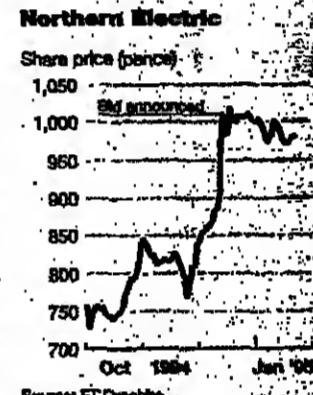
By Peggy Hollinger

Northern Electric, the utility which is defending a hostile £1.2bn (\$1.87bn) bid from Trafalgar House, yesterday promised to pass to its shareholders any special dividends agreed as part of the proposed merger of the National Grid later this year.

The promise came as the company launched its formal defence in response to Trafalgar's cash offer of £10.48p a share. Last night the shares closed unchanged at 980p.

Most of the other 12 regional electricity companies are expected to use a special dividend to offset estimated tax liabilities of about £1bn to be incurred on demerger of the Grid. It has been estimated that the Rees could take about £750m out of the Grid before demerger. This could leave Northern's shareholders with a special payment of about 35p per share, as well as Grid shares if they reject Trafalgar's bid.

Northern also accused Trafalgar of withholding the true value of the National Grid from shareholders. It said Trafalgar would only give shareholders the value of the Grid after it had deducted the cost of tax liabilities and any customer rebate agreed with



Source: FT Graphix

want our convertible paper, take cash," said Mr Nigel Rich, chief executive. "If you want to continue to own rec shares, take the cash and buy shares. They are all trading at significantly lower prices."

Northern investors welcomed its promises to return value to shareholders, which was interpreted by some to mean further share buy-backs and possibly other special dividends. "Some of the initial skirmishing seemed to have more to do with blocking the bid, instead of establishing shareholder value," one institutional said.

Northern also revealed in its defence document that the board agreed a £30,000 pay rise to £300,000 for Mr Tony Hadfield, the chief executive, the day after Trafalgar launched its bid. The company said this reflected increased responsibilities assumed from Mr Morris, whose salary was decreased from £187,000 to £129,500.

The defence document also showed that the five Northern executive directors received 266,066 share options last year at prices of between 650p and 700p.

Meanwhile, Swiss Bank Corporation, Trafalgar's adviser, has increased its stake in Northern to 4.57 per cent.

ICI sells 60% stake in Flex Products

By James Whittington

Imperial Chemical Industries is selling its 60 per cent stake in California-based Flex Products to its joint venture partner Optical Coatings Laboratory, also in California, and Sipa

Holdings, a privately held Swiss company. ICI said the value of the transaction was "substantially less than one per cent of the group's net assets", £6.8m (\$10.6bn) at the end of 1993, and was part of an overall

strategy of disposing of non-core businesses. Flex, which manufactures optical coatings products such as those used in anti-counterfeiting ink, was founded in the early eighties and had sales of about \$24m in 1994.

Record corporate loan raised for bid

By David Wighton and Martin Price

Glaxo last week raised the biggest corporate loan ever seen in the UK, signing more than \$6.5bn in new bank facilities to fund the £9.4bn offer for Wellcome.

No details of the arrangements were disclosed, but it is thought that they consist of bilateral agreements with fewer than 10 banks, each of which has committed an average of more than £700m. They are thought to include Nat-

West, Glaxo's lead banker, and Union Bank of Switzerland. Other likely participants are Deutsche, HSBC, Barclays and Swiss Bank Corporation.

Glaxo's advisers say the arrangements are not short-term which suggest that the banks will sell down some of their exposure to other banks. One banker said: "This is a short-term bridging, to get the thing done, by a few banks. Beyond that there is a commitment for a longer period. It will be going into syndication." Glaxo would not comment

on the terms of the loans but bankers believe it will have got good prices, given the healthy state of the market and its strong credit rating. However, the speed of the negotiations and size of the commitments may have enabled the banks to push up their rates.

Analysts estimate that the new debt will take Glaxo's gearing to over 300 per cent. However, even if it pays 8 per cent for the new facilities Glaxo's interest bill would be covered eight to 10 times by operating profits.

Glaxo's advisers said the amount of debt involved in the funding of the bid, which is cheaper than equity, was the highest that was "reasonable, without generating risk".

Glaxo is being advised by Lazard Brothers with stockbroker Hoare Govett. Wellcome's joint financial advisers are Baring Brothers and Morgan Stanley with Cazenove acting as brokers. SG Warburg, which was broker to Glaxo and joint adviser and broker to Wellcome, has stepped down from both sides.

Menzies advances by 16% to £7.3m

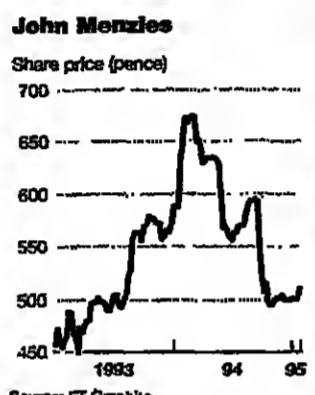
By Peter Pearce

John Menzies, the wholesale and retail chain, lifted pre-tax profits 16 per cent from £6.3m to £7.3m (£11.4m) in the six months to October 29, "a time," said Mr Ronald Noel-Paton, managing director, "when trading continued to be very difficult". Lower interest charges of £500,000 (£300,000) helped the pre-tax rise and Mr Noel-Paton was pleased with the group's emphasis on productivity and the management of working capital and cash, which led to the businesses' strong cash flows.

The group said that, after a poor lead-up to Christmas, like-for-like sales over the holiday rose by 5 per cent. Within this, Early Learning Centres (excluding its new superstores) saw an 11 per cent advance, while JM Retail's sales grew only 2.3 per cent.

Sales over the six months were "very flat", said Mr Noel-Paton, rising only £2.2m to £575.4m. He said this reflected the impact of the newspaper price wars, the rail strikes, and the lack of a "feelgood factor".

News International's new contracts with WH Smith and independent distributors would reduce Menzies' share of NI distribution from 23 to 19 per



Source: FT Graphix



Ronald Noel-Paton (left) and John Menzies, the chairman

cent, and he was "disappointed" to lose the contract for Glasgow to an independent. However, he said the group had recently gained from a new deal with IPC's Marketforce and he hoped the same would happen with Emap's Frontline.

He maintained that Menzies continued to have "muscular national coverage". There was always going to be downward pressure on margins which only the multiples could withstand.

Maintaining volumes at good productivity levels was the key, he said. Currently Menzies has 62 distribution centres. In two years this would reduce

there will be other share to pick up. Slowly the distribution operation is getting more efficient, but "slowly" seems a defining word for the group. The updating of JM Retail should be hastened, though there have been problems getting the right format. Given a choice of banana skins or caution, however, investors may prefer the latter, though with forecast pre-tax profits for the year at about £36m-£37m and earnings of 42p, the shares - on a multiple of 12.5 - look a little under value, however the prospects are far from exciting.

● COMMENT
Mr Rupert Murdoch's shake-up of newspaper distribution could have an upside as well as a downside. Menzies' loss of share could knock £1m of this year's profits, but if smaller independents go to the wall,

Charter sells US coal assets

Charter Group subsidiary Shand Mining, which operates five opencast coal mines in Indiana, US, is selling all its operating assets to Black Beauty Coal Company for an initial \$5.5m.

There will also be a royalty payment of 44 cents per ton of coal produced from the reserves. Total royalty payments under the agreement are expected to be about \$15m over 10 years, while the maximum royalty payable is \$36m.

Net book value at March 31 1994 of assets and liabilities being sold was £15.2m (£23.7m), equal to 4.1 per cent of Charter's shareholders' funds at that date.

Howden buy

Howden Group, the engineering equipment company, has acquired Burton Corbin, based in Nogent-sur-Oise, France, and its US associate for FF93m (\$9.04m) cash.

The company makes equipment for the petrochemical and oil and gas industries. In the year to March 31 it made operating profits of £900,000 (\$1.4m) and had operating net assets at the period end of £4.5m.

AH Ball in the red

The costs of completing loss-making contracts and difficulties at its KD Process International subsidiary left AH Ball, the civil engineer, with a pre-tax loss of £3.7m (£5.78m) for the six months to September 30.

The outcome compared with

NEWS DIGEST

a deficit of £40,000 last time and with a loss of £405,000 at the March 31 year-end. Turnover for the period, however, grew from £4.15m to £4.46m.

Mr Tom Austin, chairman, said that the results included a £223,000 provision for costs associated with completion of existing contracts and reorganisation of the group.

In addition, in view of the fundamental reorganisation of KD's activities, there was a full write-off of goodwill amounting to £3.35m. During the reorganisation KD will not pursue further orders.

The group's use of overdraft facilities rose from £258,000 to £554,000 over the period, resulting in an increased interest charge of £44,000 (£35,000).

Losses per share came out at 40.87p (0.2p) and the interim dividend is passed (1p). The company's shares fell 2p to 21p.

Chemex listing

Chemex International, the chemical analysis company, is moving up from the Unlisted Securities Market to a full Stock Exchange listing. It is expected that dealings will begin on Thursday.

The company, the ultimate owner of which is Deangate Investments, also announced a joint venture with The Environmental Measurement Company to provide an air pollution measuring service within Europe.

Hunterprint chief

Mr Pierre-Karl Peladeau, European president of Quebecor, North America's second largest printing company, has been appointed chairman of Hunterprint, the UK printer it acquired last week.

He will be joined on the board by Mr Robert Clark, who becomes chief executive.

Mr Anthony Caplin, chief executive and Mr Geoffrey Eades, finance director, will leave at the end of February.

Seacon lifts pay-out

Despite a 45 per cent fall in pre-tax profits at Seacon Holdings, the USM-traded shipping group's directors have recommended an increased final dividend of 1.45p, to give a total for the year of 2.4p. This compares with last year's final of 1.36p, giving a total of 2.23p, allowing for a share split last March.

The pre-tax figure for the year to September 30 was £398,000, (\$1.46m) compared with £1.72m, on turnover unchanged at £19.5m.

Mr Chris Roth, chairman, said the result was in line with the group's own projections and the fall related almost entirely to development of its new terminal at Tower Wharf in Northfleet, Kent.

Earnings per share emerged at 2.5p (4.61p). Subject to shareholder approval, the group will make a 1-for-10 scrip issue to mark its 40th anniversary.

The group blamed its problems on a slump of orders in the public sector and a lack of orders for its flagship international banking system software. It had also suffered from a £2.5m trading loss in a recently acquired business and higher than expected research and development expenditure.

In the wake of the trading statement, analysts, including County NatWest, the house broker, cut their full year profit forecasts from between £13.5m and £17m to around £7.5m.

Coda compounded the crisis of confidence in the sector by passing its final dividend after its unexpected £7.9m full year loss, struck after a £2m contribution to employee share ownership plans and a 67 per cent increase to £5m in research and development spending. The company was also hit by an earlier than expected decline in proprietary product revenues, and the poor performance of its US operations.

MDIS and Coda are not the only disappointing performers among non floatations in a troubled sector.

Among the new issues, only

results well below market expectations. The departure of Mr Ian Knox, finance director, was accompanied by a warning 10 days ago, when MDIS said that siding in the 1994 second half "had not met the board's expectations".

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Warning hits shares in Storm

By Gary Evans

Storm Group, which is involved with intellectual property rights relating to toys and cartoon characters, yesterday warned that first-half progress had not been maintained and 1994 would show an overall loss.

Mr James Driscoll, chairman, said: "The number of licensing deals and television sales that are either being finalised or are in negotiation in the UK, the US and Japan, leads the board to conclude that these prospective revenues have not been lost, but have been deferred into 1995."

In addition, there were one-off expenses associated with discontinued activities and further group streamlining.

The shares fell 1 1/2p to 11p. In 1993, USM-quoted Storm made pre-tax profits of £122,000, compared with previous losses of £2.1m restated for FRS 3. First-half 1994 profits were £72,000.

The company had concluded two contracts for the broadcast of "The Wombles" and of "Honey Pig" in Japan in the spring. Associated licensing programmes for these contracts had been launched.

Mr Driscoll revealed that the company had been in talks with a number of parties about a possible acquisition which "would create a more broadly based group with both a more substantial product base and a more stable income stream."

Computer services floats fail to meet expectations

Former McDonnell Douglas offshoot warnings create concern about sector. Paul Taylor reports

The UK computer software and services industry has been shaken by disappointing announcements from two recently floated companies.

Ten days ago, McDonnell Information Systems - a former subsidiary of McDonnell Douglas, the US aerospace group - issued its second profit warning in four months. Two days later, Coda, the Harrogate-based accountancy software company, announced a £7.99m (£12.5m) full-year pre-tax loss, its first deficit for 15 years.

Shares in both companies were marked sharply lower as analysts downgraded their profit forecasts in the wake of the announcements.

MDIS shares, floated by Barings at 260p in March last year, closed yesterday at 72p; shares in Coda, which came to market through a placing by SG Warburg in February at 235p, closed at 102p.

The reversal at MDIS is particularly startling.

The 25-year-old company has long been considered a solid performer, with strong positions in local government, the health service, police authorities and the banking sector. Its flotation valued the group at £260m, making it the biggest of the 15 UK software and computing services new issues last year.

Shares in the company first fell sharply in late September when it reported interim

results well below market expectations. The departure of Mr Ian Knox, finance director, was accompanied by a warning 10 days ago, when MDIS said that siding in the 1994 second half "had not met the board's expectations".

The group blamed its problems on a slump of orders in the public sector and a lack of orders for its flagship international banking system software. It had also suffered from a £2.5m trading loss in a recently acquired business and higher than expected research and development expenditure.

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Among the new issues, only

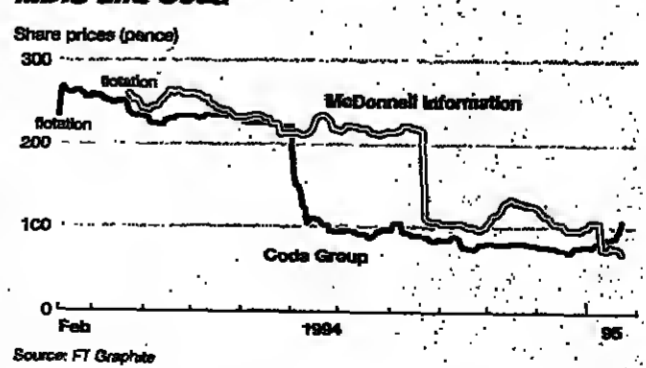
Unipalm's shares were trading at any significant premium at the end of December, according to the sector newsletter System House. The average discount by the year end was 23 per cent.

The City does not understand the area particularly well, and the problems experienced by some companies have cast a shadow over the whole sector. Aside from the sometimes arcane technology involved, one of the difficulties in understanding - and forecasting - the performance of individual companies is that they do not form a homogeneous group.

Thus while MDIS problems stem in part from its failure to sell more copies of a highly priced banking software, Coda has suffered because of a faster than expected decline in the market for its older software.

Mr Richard Holway, publisher of the System House newsletter, believes there are nevertheless some general lessons for investors. He argues that the quality of earnings for some software and services companies is not as sound as they would have people believe, and he suggests that the forecasting skills of some of those involved in recent flo-

MDIS and Coda



Source: FT Graphix

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Grady Electronics, which show particular growth in the system integration business. Software product vendors are facing the same problems as those which beset hardware companies five years ago, as their customers move away from proprietary systems and opt instead for "open" software which can run on a range of hardware.

This move means increased competition and reduced margins for the software vendors, just as they are having to spend more on R&D to meet customer requirements.

Analysts believe these market conditions will accelerate the process of consolidation already apparent in the software industry, in the UK and overseas.

In the meantime, Mr Holway's advice to institutional investors and others interested in the sector is to become more selective.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Roll (AH)	5 mths to Sept 30	4.46 (4.15)	3.71* (3.04)	40.87 (2.2)	all	1		
London Corporation	6 mths to Sept 30	0.72 (0.86)	0.04 (0.08)	3.6 (-)				
Menzies (John)	6 mths to Oct 29	576.4 (571.1)	7.3 (6.2)	7.6 (5.9)	4.8	Apr 1	4.1	11.5
Seacon Holdings	Yr to Sept 30	18.3 (15.3)	0.94 (1.72)	2.5 (4.61)	1.43	Apr 3	1.36p	2.4
								2.28
Investment Trusts								
Derby	Yr to Dec 31	443 (494)	2.09 (2.12)	17.125 (17.952)	10.6106	Feb 28	8.7049	17.7128
GT Japan	5 mths to Dec 31	249.3 (243.6)	0.31 (0.51)	0.49 (0.98)	0.4	Mar 8	0.4	17.7128
								17.952

Dividends shown net. Figures in brackets are for corresponding period. *On increased capital. *AH stock. *Adjusted for share split. *Includes £222,000 provision and £5.55m goodwill write-off. *2nd shares only listed. *Includes special interim of 2.50p. *Includes special payment of 0.25p.

NATIONAL WESTMINSTER BANK PLC

US\$500,000,000 Undated Variable Rate Notes
(Issued on 21 November 1988 as to US\$350,000,000
and on 21 February 1989 as to US\$150,000,000)
(the "Notes")

NOTICE IS HEREBY GIVEN pursuant to Condition 5(a) of the Notes that National Westminster Bank Plc will redeem the Notes at their principal amount on the Interest Payment Date falling on 29 February 1995.

24th January, 1995
National Westminster Bank Plc

COMMODITIES AND AGRICULTURE

Gold price rally runs into options-related selling

By Kenneth Gooding, Mining Correspondent

Gold bulls suffered a severe disappointment yesterday when the price, which had seemed ready to advance to US\$390 a troy ounce, instead dropped back under the pressure of options-related selling.

After the price was "fixed" in London at \$388.10, its highest for nine weeks, the bulls hoped for a continuation of the rally which started late on Friday in New York. Instead, selling started and by the close in London yesterday gold was down \$2 an ounce from Friday's close at \$382.10.

"Gold will have difficulty breaking decisively above \$385-\$390 in coming weeks," suggested Mr Ted Arnold, analyst at Merrill Lynch in his last

est metals report.

Mr Andy Smith, analyst at Union Bank of Switzerland, pointed out that gold rose only \$8 in the past week, one which had seen armed conflict in Chechnya, speculation about the failing health of the Chinese leader, Deng Xiaoping, a major earthquake in Japan, and an economic crisis in Mexico. "That's a hard act to follow for one week." There had been suggestions that investors would turn to gold if the US dollar weakened further, but "the next dollar crisis would have to be a big one," Mr Smith insisted.

Merrill's Mr Arnold cited three factors that had caused him to lower by \$10 an ounce the top end of gold's expected trading range. Probably the most important was a change

in sentiment among North American dealers and fund managers who were now becoming much more bearish and "more amenable to trading gold on the short side".

Also more producers were willing to sell forward and they had lowered their target levels from more than \$400 to \$385-\$390. The third change was the emergence of "modest disinvestment selling" from the Middle East, mostly Saudi Arabia. Many Middle East sellers who had been waiting for prices above \$400 would now be happy to disinvest at prices above \$385, said Mr Arnold.

As for the bottom end of gold's trading range, some Swiss and UK bullion houses were aiming for between \$370 and \$380 an ounce and some believed.

Aluminium producers open a can of worms

Kenneth Gooding reports on a furore over a new US pricing formula for can sheet

A big split of opinion has opened up between US and European aluminium groups about the pricing of can sheet, a material used to make drinks cans, which accounts for about 14 per cent of total aluminium demand outside the former Soviet Union.

Alcoa, the biggest aluminium group, has this year introduced a new pricing formula for can sheet in the US and other domestic producers quickly followed its lead. The formula has raised can prices by more than 50 per cent from the 1994 level and caused a furore among consumers. The change has also shifted the risk associated with the sometimes violent swings in the market price of primary aluminium, the raw material for can sheet, from the producers to the can makers.

US can makers are complaining that they have never faced such a big jump in raw material prices. The National Soft Drink Association says the jump is adding 2 cents to the cost of each can and \$1.2bn to total costs.

Meanwhile, soft drinks and beer makers, are threatening to switch away from aluminium cans to other packages - to plastic bottles in the US and to glass and plastic bottles and tin-plated steel cans in other parts of the world.

Two consumers have hired a Washington lawyer to investigate whether the aluminium

producers could successfully be prosecuted for anti-trust violations.

The US moves have also met with criticism from a more unexpected quarter. Mr Gerard Hauser, chairman and chief executive of Pechiney Rhenalu, the French group that claims to be Europe's biggest can sheet maker, suggests the US producers have gone too far and his group is not following the new US pricing formula. He says it is also ill-advised for producers to insist on linking can sheet prices with those for primary aluminium on the London Metal Exchange.

LME prices are frequently volatile because of the influence of traders and, more recently, investment funds, that sometimes ignore the fundamentals of supply and demand. Consumers have volatility, Mr Hauser points out. Producers should strive for long-term, stable can sheet prices if the aluminium industry is to continue to win business away from other packaging materials.

In an ideal world, he suggests, can sheet producers would offer customers firm prices for three to five years ahead, possibly with minimum and maximum levels within a very small range. However, this pricing system would have to take account of the replacement cost of plant and equipment - replacing Pechiney Rhenalu's plant at Neuf-Brisach, on the river Rhine near

the border with Germany, would cost US\$2bn.

Competition between the various types of packaging is particularly intense in Europe and for this reason the North American producers have also shied away from attempting to impose the US formula there.

Alcan of Canada, for example, said it was continuing its previous policy of negotiating individual deals with European customers. The US can sheet market is more important to the producers - it accounts for about 10 per cent of total western world annual aluminium demand.

Nevertheless, can sheet prices are being pushed up strongly in Europe. Pechiney Rhenalu is taking advantage of present strong demand to lift prices from very depressed 1994 levels by 17 per cent for can body sheet and more than 20 per cent for can end sheet.

Mr Hauser says that in the US five years ago body sheet prices were \$1.25 a pound. In 1995 companies are charging about \$1.22. Also, during those five years the amount of aluminium per can has also been reduced by about 8 per cent. So there are more cans per pound

primary metal.

He says can makers and fillers were shocked by the speed at which other producers followed Alcoa's lead "but I am sure Alcoa was equally shocked by the way the primary aluminium price reacted shortly after the new formula was launched".

Mr Mason believes the situation offers the plastics and steel industries a competitive opportunity, particularly in Europe. Steel and plastic prices are rising, but not as strongly as aluminium's price.

However, Mr Stewart Specter, author of the Specter Report on the industry, suggests: "The threat of substitution is much ado about nothing. The [can sheet] mills will find it hard just to keep up with the growth in beverage demand. Besides, it is nearly impossible for end users to convert to other containers without causing capacity constraints and rising prices for plastic and steel containers. That makes it impracticable to convert on a large scale."

Pechiney Rhenalu's Mr Hauser is not complacent, however, and says he is very conscious of competition from steel and plastics. But he is comforted by the fact that last year Neuf-Brisach's output (48 per cent of it can sheet) jumped by 20 per cent, from 220,000 to 263,000 tonnes, and at present his company's mills are working flat out to meet demand.

Minerals enlisted to fight hunger

By Alison Maitland

An international research programme is being launched today to develop mineral-enriched varieties of the world's most common food crops in a bid to prevent widespread malnutrition and disease while improving yields.

Crops enriched with essential minerals such as zinc and iron could be ready for commercial use by farmers within six to ten years, according to Mr Howard Bouis, Washington-based director of the "micronutrients" project.

Research on wheat varieties in Australia has shown that plants that take up zinc from the soil are more productive. As they are more vigorous and have stronger root systems, they also need fewer chemical inputs and less irrigation.

"This is a low-cost approach to fighting malnutrition that could improve farm productivity and benefit the environment at the same time," said Mr Bouis. "If the crops are drought resistant and high-yielding, then they may be

grown on a fairly wide basis. That is what's so exciting."

The project is being launched by the Consultative Group on International Agricultural Research, an informal grouping of countries and organisations linked to the World Bank. It is seeking \$7m over five years from private foundations, companies and multilateral agencies to fund research into mineral-enriched corn, rice, wheat, beans and cassava.

Mr Bouis said research would focus on developing varieties capable not only of absorbing minerals such as zinc and iron from the soil but also transferring them into the seed head, which humans eat.

The main staple food crops generally lack enough essential vitamins and minerals to prevent health problems in the developing world such as anaemia, blindness and retarded growth. But some varieties have roots that emit chemical substances into the soil. These "unbound" minerals such as zinc and iron can be absorbed.

Plant breeding can select for such characteristics, including transferring large amounts of these minerals to the seeds, said Mr Bouis.

Soil depletion should not be a problem with the new varieties because "there's enough zinc in the soil for thousands of crops."

Mr Bouis began investigating the possibilities 18 months ago and was told by researchers at Cornell University in the US: "It's a win-win situation."

The research will be co-ordinated by the International Food Policy Research Institute in Washington and carried out by agricultural centres in Colombia, Mexico, Australia, the Philippines and the US.

"We are starting our research on iron and zinc because they provide benefits to human nutrition and have advantages for farmers," said Mr Bouis. "We would also like to research the viability of breeding for plants with a high vitamin A content, but vitamin A does not aid in plant nutrition and therefore would not provide higher yields."

Jamaican bauxite strike spreads

By Carole James in Kingston

A strike in Jamaica's bauxite (aluminium ore) refining industry spread yesterday, closing two more refineries. The plants, owned by Alcan Jamaica Company, a subsidiary of Alcan of Canada, were shut down after unions ordered workers to stay home to protest the level of the company's offer of a new wage contract.

The refineries have a total capacity of 1.1m tonnes a year and the closure has left 75 per cent of the island's refining capacity. Alumina Partners, Jamaica's biggest refinery with rated capacity of 1.45m tonnes a year, was closed on Friday evening by a strike.

Expressing concern for the effect of the strikes on the industry and on the island's fragile economy, government

officials attempted without success over the weekend to get the impasse resolved. More meetings are scheduled for today.

Jamaica is the world's third biggest bauxite ore producer, after Australia and Guinea, according to the mining ministry. One production last year was 11.7m tonnes, 4.8 per cent more than 1993, while alumina output grew 12.8 per cent to 3.32m tonnes.

MARKET REPORT Aluminium hits fresh highs

London Metal Exchange ALUMINIUM prices rose to new 5 1/2-year highs during lively after hours "kerb" trading, but other metals were in an uncertain frame of mind.

News of a strike at Alcan's Jamaican alumina and bauxite operations provided the impetus for aluminium's price rise, traders said.

COPPER prices remained in the minus column throughout the day, however. The market was in need of some consolidation on the charts following recent strong gains, traders explained.

At London Commodity Exchange, nearby COCOA futures gave up the foothold above \$1,000 a tonne. "The market was a little long and we saw some people getting out," one trader said. Compiled from Reuters

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COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 Purity (5 per cent)

CASH 3 mths

Close 2129.30 2186.67

Previous 2106.7 2143.4

High/Low 2123/2122 2181/2147

AM Official 2122.25 2161.41.5

Kerb close 2122.25 2174.5

Open int. 221,074

Total daily turnover 46,763

ALUMINIUM ALLOY (5 per cent)

Close 2005.15 2048.55

Previous 1980.90 2020.30

High/Low 1980.90 2020/2055

AM Official 2000.5 2040.50

Kerb close 2000.5 2060.5

Open int. 2,750

Total daily turnover 1,066

LEAD (5 per cent)

Close 882.93 708.9

Previous 882.5-90.5 709.7

High/Low 882.5 710/714

AM Official 884.5 710.11

Kerb close 884.5 708.5-10.0

Open int. 37,710

Total daily turnover 5,526

NICKEL (5 per cent)

Close 9335-45 10105-10

Previous 9320-20 10100-10

High/Low 9320-20 10100/1000

AM Official 9370 10140-50

Kerb close 9370 10140-50

Open int. 81,765

Total daily turnover 11,444

TIN (5 per cent)

Close 6450-50 6550-55

Previous 6485-75 6504-5

High/Low 6485-75 6500/6540

AM Official 6485-90 6555-70

Kerb close 6485-90 6555-40

Open int. 22,608

Total daily turnover 6,880

ZINC, special high grade (5 per cent)

Close 1110-05 1221-22

Previous 1200-20 1221-22

High/Low 1197/1198 1221/1217

AM Official 1198.5-97.0 1223-4

Kerb close 1198.5-97.0 1223-4

Open int. 100,075

Total daily turnover 10,454

COPPER, grade A (5 per cent)

Close 3032-33 3036-37

Previous 3030-31 3036-37

High/Low 3030-31 3036-37

AM Official 3042-44 3044-45

Kerb close 3042-44 3037-8

Open int. 232,592

Total daily turnover 57,732

LME Official 3/6 ratio: 1.5870

LME Closing 3/6 ratio: 1.5945

Spot 1.5955 3 mths 1.5947 6 mths 1.5937 9 mths 1.5925

HIGH GRADE COPPER (COMEX)

Close 142.50 143.50

Previous 141.50 142.50

High/Low 141.50 142.50

AM Official 142.50 143.50

Kerb close 142.50 143.50

Open int. 14,125

Total daily turnover 5,857

ZINC, special high grade (5 per cent)

Close 142.50 143.50

Previous 141.50 142.50

High/Low 141.50 142.50

AM Official 142.50 143.50

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Previous 141.50 142.50

High/Low 141.50 142.50

AM Official 142.50 143.50

Kerb close 142.50 143.50

Open int. 14,125

Total daily turnover 5,857

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INTERNATIONAL CAPITAL MARKETS

Italy outperforms other European countries

By Graham Bowley in London and Lisa Branstetter in New York

Italian government bonds moved higher yesterday, outperforming other European markets, which were dragged lower by weakness in US Treasuries.

The more conciliatory tone struck over the weekend by Mr Silvio Berlusconi, the former prime minister, towards his successor, Mr Lamberto Dini, soothed Italian investors' nerves, analysts said.

Provisional consumer price data showing a slight fall in the annual growth rate in January also helped sentiment. The yield premium on Italian 10-year bonds narrowed to 467 basis points over German bunds from 485 points at Friday's close.

Elsewhere, European bond markets fell in afternoon trading after moving sideways dur-

ing the morning session as concerns about the overheating of the US economy and the weakness of the dollar on the foreign exchanges dragged US Treasuries lower.

Spain was hardest hit, with the 10-year March contract on the Spanish futures exchange down 0.53 to 63.07 in late trading. Political uncertainty continues to undermine investor confidence in the Spanish government bond market, analysts said.

"Any good news which causes a rally in the other high-yielding markets has little effect on Spain," said Mr Huw Roberts, European bond strategist at NatWest Markets.

"Even though the spreads against Italy and Spain are now looking attractive, nobody is looking to switch into Spain at the moment," he said. Spanish 10-year bonds are currently trading at a yield spread of 47 basis points over Italian bonds.

The German March futures contract on Liffe fell back to 89.32 in late trading, down 0.43 on the day, after reaching a high of almost 89.70 during the morning session.

Investors are awaiting M3 money supply data for December, which are expected imminently and will give more

GOVERNMENT BONDS

direction to the market, analysts said. The consensus forecast is for annual growth of 5.5 per cent in December, down from 6 per cent in November.

UK government bonds fell in line with other European markets, with the long gilt future down 1/8 at 100 1/8 in late trading. In the cash market, the 10-year yield spread over bunds widened to 134 basis points from

132 points at Friday's close. Figures showing a stronger than expected rise in gross domestic product in the fourth quarter of last year had little impact on gilt.

Investors' attention is now turning to the CBI industrial trends report for December, due to be published today.

The report is expected to show strong price pressures and high output expectations, which will put further pressure on the government and the Bank of England to raise short-term interest rates, said Ms Marian Bell, treasury economist at the Royal Bank of Scotland.

French government bonds fell in line with other European markets on the Matif caused by a one-week strike by independent traders in a dispute over fees. The March national bond futures contract on Matif settled at 110.26, down 0.64. The

yield spread against bunds, which narrowed to a low of 60 basis points last week, widened by 3 points on the day to 67 basis points.

Worries that the Federal Reserve might not be able to control inflation pushed the long-end of the US Treasury market down yesterday morning, while shorter-term securities held relatively steady. At midday, the benchmark 30-year Treasury was down 1/8 at 95 1/8 to yield 7.921 per cent. At the short end of the market, the two-year note was up 1/8 at 100 1/8, yielding 7.461 per cent.

The curve that maps the spread between two-year notes and the long bond continued its recent steepening path as the spread widened from 45 basis points late on Friday to 46 points yesterday morning. A steepening yield curve is generally caused by investors in long-term securities

demanding higher yields to offset the risk that inflation will erode their investments. Therefore, such yield-curve movements are interpreted as a sign that the market expects economic growth.

The consensus on Wall Street is that the Fed will raise interest rates by 50 basis points at next week's meeting of its Open Market Committee, but data released last week indicating robust economic growth caused some to worry that it might not be enough.

Particularly troubling was speculation that Mexico's economic crisis might deter the Fed from raising interest rates altogether, in spite of statements from officials that the situation in Mexico would not affect monetary policy.

Another factor putting pressure on the market was new supply set to come from an auction of \$26.8bn in three and six-month notes.

Paribas launches asset-swap FRN

By Richard Lapper

Paribas Capital Markets reported a positive response from investors to a \$68.6bn floating-rate note issue launched yesterday.

The issue, which matures in June 1996, is the first to come from the bank's new product line, known as Liquid Asset Swap with Enhanced Return, or Laser.

Laser is effectively based on the securitisation of an asset swap and is designed to bring the advantages of the asset swap markets to a wider range of investors.

Many investors are currently excluded from the benefits of the asset swap market by a series of regulatory, legal and other barriers. At the core of Laser is a new Cayman Islands-based finance company, or special purpose vehicle, called Laser Finance

Limited. This has been set up by Paribas but is owned by investors who buy the paper it issues.

For yesterday's issue, dubbed Laser 1 - Floating, entered into a swap agreement with Laser, exchanging obligations on fixed-rate Swiss franc paper for those on two-year floating-rate US dollar notes.

The floating-rate notes are backed by the security of the Swiss paper.

The notes were rated Aa by Moody's, the US rating agency, the same rating as the underlying bond which provides collateral.

SG Warburg reaffirms commitment to sterling

By Nicholas Denton

S. G. Warburg, the UK investment bank which announced earlier this month that it was pulling out of the eurobond market, has reaffirmed its commitment to sterling bond operations.

Warburg's Société Nationale des Chemins de Fer Belges (SNCF), the Belgian railway company, on a road show last week in the UK in preparation for a possible sterling bond issue.

The roadshow is the first since Warburg restructured its fixed-income operations and said that it was in essence pulling out of eurobonds.

The initial announcement on January 9 left some confusion

because Warburg also said it would continue to lead sterling issues and make markets in them. The extent to which Warburg would service borrowers from outside the UK was not made clear.

In a research note published yesterday, Warburg said it intended to continue selling debt products to its institutional clients and provide a full market-making service in all sterling issues with a maturity of over 10 years. The preparations for SNCF demonstrate that Warburg includes sterling issues by foreign borrowers.

Fixed-income operations nevertheless are being much cut back: the company has dismissed 180 of the 350 staff and is reassessing others.

Toyota Motor brings two issues in different currencies

By Martin Brice

Two issues in different currencies from Toyota Motor Credit Corporation marked a quiet day in the euromarkets yesterday.

Big issuers are waiting for the Federal Reserve Open Market Committee meeting on January 31, which they fear may lead to an increase in US interest rates.

However, some syndicates said international finance corporations, the World Bank affiliate, was planning a large dollar issue that might come today. The IFC was believed to be thinking of a \$500m 10-year issue.

The decision by AAA rated Toyota to bring two deals to the euromarkets in the same day is unusual but not unprecedented. The move brings

greater exposure and raises the profile of the issuer's name. The two deals were aimed at different investor bases.

The company revisited the D-Mark sector for the first time in three years with a DMS500m deal through Dresdner Bank

INTERNATIONAL BONDS

and Merrill Lynch, which said international finance corporations, the World Bank affiliate, was planning a large dollar issue that might come today. The IFC was believed to be thinking of a \$500m 10-year issue.

Merrill said the five-year issue, with a coupon of 7 1/2 per cent, was targeted at retail demand.

The deal was brought at 11 basis points over the relevant fund and Merrill said it wid-

ened slightly to around 12 points over when freed to trade.

Toyota's other deal was in Australian dollars with a three-year maturity. Lead manager BZW said it had had the bonds lined up for some days and was waiting for the market to move to a position where it could offer them with a coupon of 10.75 per cent.

The World Bank raised DMS500m by reopening a DM2bn global deal brought last October. The bonds, which had a four-year maturity and a 7.25 per cent coupon, were brought through joint books Morgan Stanley and Deutsche Bank, which said this was the first time a World Bank global deal had been reopened.

A Deutsche syndicate official said: "The liquidity of the issue was threatened." He said that

NEW INTERNATIONAL BOND ISSUES									
Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner		
US DOLLARS									
Surfco/Deutsche LBSA	200	7.875	100.03R	Feb 1997	0.125R	-20W/2Y	LBS		
Santander Financial Services	150	8.125	99.787R	Oct 1996	0.50R	-	Salomon Brothers Ltd.		
D-MARKS									
Toyota Motor Credit Corp.	500	7.25	99.85R	Feb 2000	0.25R	+117/8-25	Dresdner/Merrill Lynch		
World Bank	500	7.25	99.83R	Oct 1996	0.25R	+65/8-25	Deutsche/Morgan Stanley		
LUXEMBOURG FRANCS									
Euromark	2bn	8.25	101.875	Mar 2002	1.875	-	BIL Credit European		
Fluorbank Nederland	2bn	7.875	102.45	May 1999	1.525	-	BIL		
ECU									
SECC	100	8.25	99.828R	Feb 2000	0.25R	-	Merrill Lynch International		
AUSTRALIAN DOLLARS									
Toyota Motor Credit Corp.	125	10.75	101.145	Mar 1998	1.50	-	Barclays de Zeeuw		

Final terms, non-callable unless stated. Yield spread over relevant government bond at launch supplied by lead manager. 2 Floating-rate note. R: fixed re-offer price; less shown at re-offer level. a) Long 1st coupon, b) 6-month Libor +37 1/2bps. Short 1st coupon, c) Floating with DM2bn. Plus 113 days accrued. d) Issue launched 18/1/95 was increased to LBS50m.

strong demand for the paper had led to it tightening in to around 4 basis points below the fund, and the high price of the bonds had meant the issue had become illiquid.

"The World Bank likes its issues to stay liquid. It had reached a very expensive level and large institutional investors were not interested any more," he added.

GECC raised Ecu100m with a deal brought through Merrill Lynch, which said around Ecu2.5bn of paper was due for redemption within the next few weeks.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS									
Coupon	Rate	Price	Day's change	Yield	Week ago	Month ago			
Australia	9.000	104.04	90.6300	-0.840	10.57	10.30			
Austria	7.625	100.04	99.9200	-0.120	7.71	7.74			
Belgium	7.750	100.04	95.1200	-0.050	8.50	8.45			
Canada	8.000	120.04	96.0000	-0.800	8.63	8.34			
Denmark	7.000	124.04	93.6700	-0.430	9.10	9.06			
France	8.000	105.04	100.8900	-0.120	7.98	7.88			
Germany	7.500	104.04	94.8500	-0.520	8.25	8.18			
Italy	7.375	107.04	94.5300	-0.460	7.39	7.23			
Japan	4.000	104.04	82.2000	-0.300	6.78	6.78			
Netherlands	8.000	104.04	91.0000	-0.200	11.57	11.51			
Portugal	8.000	104.04	94.6400	-0.460	7.75	7.68			
Spain	10.000	102.04	88.0800	-0.210	11.88	11.83			
Sweden	8.000	104.04	94.6400	-0.460	7.75	7.68			
Switzerland	8.000	104.04	94.6400	-0.460	7.75	7.68			
UK Gilts	8.000	104.04	94.6400	-0.460	7.75	7.68			
US Treasury	8.000	104.04	94.6400	-0.460	7.75	7.68			
ECU (French Govt)	8.000	104.04	94.6400	-0.460	7.75	7.68			
London clearing, New York mid-day									
Yields (including withholding tax at 12.5 per cent payable by nonresidents)									
Source: M&G International									

US INTEREST RATES

Treasury Bills and Bond Yields									
Rate	1m	3m	6m	1yr	2yr	3yr	5yr	10yr	30yr
Prime rate	8 1/2								
Bank loan rate	8 1/2								
Broker loan rate	8 1/2								
Fed funds rate	5 1/4								
Federal Reserve discount	5 1/4								

BOND FUTURES AND OPTIONS

FRANCE									
NOTIONAL FRENCH BOND FUTURES (MATIF)									
Open	Settle	Change	High	Low	Est. vol.	Open Int.			
Mar	110.26	110.26	-0.64	110.74	110.26	139,363			
Jun	109.94	109.94	-0.66	110.94	109.94	521			
Sep	109.30	109.30	-0.66	109.30	109.30	2			
LONG TERM FRENCH BOND OPTIONS (MATIF)									
Strike	Feb	Mar	Jun	Feb	Mar	Jun			
109				0.02	0.38	1.34			
110	0.43	1.01	1.35	0.18	0.74	1.80			
111	0.06	0.51	1.52	0.17	1.24	1.80			
112		0.22		0.18	1.32				
113		0.08	0.34						
Est. vol. last call: 18,818 Puts 18,818. Previous day's open int. call: 182,050 Puts 173,050.									

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE) DM250,000 100ths of 100%									
Open	Settle	Change	High	Low	Est. vol.	Open Int.			
Mar	98.92	98.92	-0.43	99.70	98.92	119,914			
Jun	98.08	98.74	-0.43	99.10	98.71	409			

UK GILTS PRICES

Shorter (Values up to 100 years)									
Rate	1m	3m	6m	1yr	2yr	3yr	5yr	10yr	30yr
10 Apr 1995	10.07	8.89	10.14						
10 Apr 1996	12.18	8.82	10.04						
10 Apr 1997	13.12	7.06	10.04						
10 Apr 1998	13.84	7.39	10.04						
10 Apr 1999	13.87	7.39	10.04						
10 Apr 2000	13.87	7.39	10.04						
10 Apr 2001	13.87	7.39	10.04						
10 Apr 2002	13.87	7.39	10.04						
10 Apr 2003	13.87	7.39	10.04						
10 Apr 2004	13.87	7.39	10.04						
10 Apr 2005	13.87	7.39	10.04						
10 Apr 2006	13.87	7.39	10.04						
10 Apr 2007	13.87	7.39	10.04						
10 Apr 2008	13.87	7.39	10.04						
10 Apr 2009	13.87	7.39	10.04						
10 Apr 2010	13.87	7.39	10.04						
10 Apr 2011	13.87	7.39	10.04						
10 Apr 2012	13.87	7.39	10.04						
10 Apr 2013	13.87	7.39	10.04						
10 Apr 2014	13.87	7.39	10.04						
10 Apr 2015	13.87	7.39	10.04						
10 Apr 2016	13.87	7.39	10.04						
10 Apr 2017	13.87	7.39	10.04						
10 Apr 2018	13.87	7.39	10.04						
10 Apr 2019	13.87	7.39	10.04						
10 Apr 2020	13.87	7.39	10.04						
10 Apr 2021	13.87	7.39	10.04						
10 Apr 2022	13.87	7.39	10.04						
10 Apr 2023	13.87	7.39	10.04						
10 Apr 2024	13.87	7.39	10.04						
10 Apr 2025	13.87	7.39	10.04						
10 Apr 2026									

CURRENCIES AND MONEY

MARKETS REPORT

Yen weakens as earthquake worries continue

The yen was yesterday the focus of currency market attention as stock market weakness, and the prospect of lower interest rates, undermined the currency, writes Philip Gwinth.

The 5.6 per cent fall in the Nikkei Stock Average caused the yen to weaken to ¥100.2 against the dollar, from ¥99.4, due to Asian trading. The move was not carried through during European trading, with the yen recovering to close in London at ¥99.75, from ¥99.17.

Comments from Mr Yasuo Matsushita, the Bank of Japan governor, indicating an easing of monetary conditions following last week's earthquake, also caused yen weakness.

The generally weak tone of the dollar was attributed to continued concerns that the Mexican financial crisis was bad for the US economy. Worries about the delay in announcing a US support package for the Mexican peso, meanwhile, caused the peso to slip two cen-

tavo, to 5.715 pesos, from 5.685 pesos.

In Europe, the D-Mark had a mixed performance. It was firmer against the peseta and the Swedish krona, but lost ground against the escudo, the lira and the franc.

In the UK, strong fourth quarter GDP figures bolstered expectations of a further monetary tightening, lending support to the pound. Sterling gained around one penny, and one cent, during the day to touch the DM2.41 and \$1.5650 at levels in New York trading.

A market perception is gradually developing that last week's earthquake is bad for the yen. Firstly, the economic damage caused is seen as making Japanese assets less attractive.

Exacerbating this fear yesterday, and causing the sharp fall in share prices, was a newspaper story which suggested that the government might be scaling back its support of the stock market.

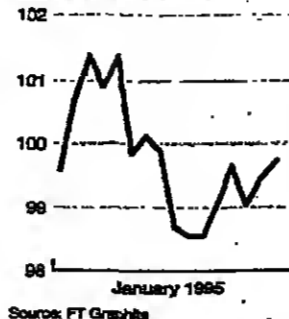
Secondly, the Bank of Japan has made clear that it is ensuring adequate liquidity to regions which suffered damage. The market has concluded that this means interest rates will stay low for longer than originally anticipated.

This was reflected in the movement of euroyen futures, with the June, September and December contracts yesterday gaining six, 13 and 17 basis points respectively.

If the market's eye is on Japan, the other is still very much with Mexico. While the market's reasoning is always clear or consistent, the main conclusion is simple enough: events in Mexico are bad for the US, and the dollar. Thus, explanations for recent dollar weakness have included

Dollar

Against the Yen (¥ per \$)



Source: FT Graphs

shape market expectations of what the Federal Open Market Committee is likely to do when it meets next week.

Most analysts argue that the dollar needs a further decisive tightening if it is to recover. A glimmer of hope for dollar bulls came from Mr Hans-Juergen Krupp, a Bundesbank council member. He seemed to indicate that a further cut in German interest rates might be in the offing, saying that the current German discount rate, at 4.5 per cent, was too high a level from which to start tightening policy.

Analysts warned, though, that Mr Krupp is known as an inflation dove. Recent economic data have also not supported a cut in rates.

European currencies were the subject of some level comment. Mr Edouard Balladur, the French prime minister, said that European monetary union would contribute to world monetary stability. He

said economic convergence in the EU should make it possible to set up a single currency as early as 1997.

In Italy, meanwhile, Mr Lamberto Dini, the prime minister, said the return of the lira to the exchange rate mechanism "remains our primary objective".

The Bank of England provided UK money markets with £195 of late assistance. Earlier it had injected £141m liquidity at established rates, after forecasting a shortage of £500m. Overnight money traded between 5% and 7% per cent. Money market rates were firmer, with three month LIBOR trading around 6% per cent, from 6% per cent.

Other currencies were the subject of some level comment. Mr Edouard Balladur, the French prime minister, said that European monetary union would contribute to world monetary stability. He

WORLD INTEREST RATES

January 23	Over night	One month	Three months	Six months	One year	Long term	Dis. rate	Repo rate
Belgium	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-
France	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-
Germany	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-
Italy	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-
Japan	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-
UK	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-
US	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8	7 1/8	4.50	-

LIBOR FT London	Over night	One month	Three months	Six months	One year
Interbank	5.80	6.15	6.53	7.24	-
US Dollar	5.80	6.15	6.53	7.24	-
US Dollar	5.80	6.15	6.53	7.24	-
US Dollar	5.80	6.15	6.53	7.24	-

EURO CURRENCY INTEREST RATES	Jan 23	Jan 23	Jan 23	Jan 23	Jan 23
Belgium	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
France	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Germany	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Italy	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Japan	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
UK	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
US	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8

POUND SPOT FORWARD AGAINST THE POUND

Jan 23	Closing mid-point	Change on day	Day's bid/offer	Day's bid/offer	One month	Three months	One year	JP Morgan
Europe	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Australia	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Canada	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
France	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Germany	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Italy	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Japan	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
UK	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
US	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 23	Closing mid-point	Change on day	Day's bid/offer	Day's bid/offer	One month	Three months	One year	JP Morgan
Europe	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Australia	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Canada	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
France	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Germany	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Italy	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
Japan	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
UK	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000
US	10.0000	-0.0004	9.9996	10.0004	10.0000	10.0000	10.0000	10.0000

CROSS RATES AND DERIVATIVES

Jan 23	Over night	One month	Three months	Six months	One year
Belgium	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
France	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Germany	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Italy	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Japan	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
UK	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
US	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8

JAPANESE FUTURES (JYU) Yen 12.5 per Yen 100

Jan 23	Open	High	Low	Est. vol	Open int.
Mar	10.010	10.015	10.005	10.010	10.010
Jun	10.010	10.015	10.005	10.010	10.010
Sep	10.010	10.015	10.005	10.010	10.010

UK INTEREST RATES

Jan 23	Over night	One month	Three months	Six months	One year
Interbank	5.80	6.15	6.53	7.24	-
US Dollar	5.80	6.15	6.53	7.24	-
US Dollar	5.80	6.15	6.53	7.24	-
US Dollar	5.80	6.15	6.53	7.24	-

STERLING FUTURES (JYU) Yen 12.5 per Yen 100

Jan 23	Open	High	Low	Est. vol	Open int.
Mar	10.010	10.015	10.005	10.010	10.010
Jun	10.010	10.015	10.005	10.010	10.010
Sep	10.010	10.015	10.005	10.010	10.010

THREE MONTH STERLING FUTURES (JYU) Yen 12.5 per Yen 100

Jan 23	Open	High	Low	Est. vol	Open int.
Mar	10.010	10.015	10.005	10.010	10.010
Jun	10.010	10.015	10.005	10.010	10.010
Sep	10.010	10.015	10.005	10.010	10.010

THREE MONTH EURO DOLLAR (JYU) Yen 12.5 per Yen 100

Jan 23	Open	High	Low	Est. vol	Open int.
Mar	10.010	10.015	10.005	10.010	10.010
Jun	10.010	10.015	10.005	10.010	10.010
Sep	10.010	10.015	10.005	10.010	10.010

BASE LENDING RATES

Jan 23	Over night	One month	Three months	Six months	One year
Belgium	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
France	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Germany	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Italy	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
Japan	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
UK	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8
US	4 1/8	5 1/8	5 1/8	5 1/8	6 1/8

US TREASURY BILL FUTURES (JYU) Yen 12.5 per Yen 100

Jan 23	Open	High	Low	Est. vol	Open int.
Mar	10.010	10.015	10.005	10.010	10.010
Jun	10.010	10.015	10.005	10.010	10.010
Sep	10.010	10.015	10.005	10.010	10.010

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LEGAL NOTICES

IN THE MATTER OF PENNIE PLC
NOTICE IS HEREBY GIVEN that a Petition was presented to the High Court of Justice in London for the winding up of Pennie PLC under section 122(1)(b) of the Companies Act 1948. The Petition was presented by the Official Receiver of the Company. The Petition is supported by a statement of affairs of the Company. The Petition is supported by a statement of affairs of the Company. The Petition is supported by a statement of affairs of the Company.

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BANKS, MERCHANT**BUILDING MATS. & MERCHANTS - Cont.****ELECTRONIC & ELECTRICAL EQPT - Cont.**

EXTRACTIVE INDUSTRIES

HEALTH CARE - Cont.INVESTMENT TRUSTS - Cont.

BANKS, RETAIL

Alko FI	273	-5	232	232	3,400	8.1
Alled Colicids	1100	-1	100	1151	611.1	2.8

19.2	Hewlett-Packard 5	256K	-1 1/2	257%	\$47	18,830	1.1
18.4	Intel Cx4 Server	1.37		193	121	54.7	4.6
15.5				182	141	57.2	1.4

Duration AS	118	-3	1891	101	44.1
Factor	3.4		6	21	8.98

United Drug E.....N	100nd	+
Westminster H care J	342	

295	105	31.3	5.1	●	For & Col High - 200	57	100
400	284	174.4	1.8	19.4	For 5 Col Inc South 200	57	100
					Re Missouri		

Yamada Tetsu Bk Y 4 452 1/4 -2 1/2 6

Notes	Price	High	Low	Caplzm	Gr's
ABN Leds	107 1/4	127	181	27.3	3.5

PIE	Telemetro	N	83	-2	170	77	75.9	1.5
11.8	TGI	41N	81nd	---	181	51	19.8	3.1
	Telecom	1	254	-2	395	183	112.2	0.8

0.8	Harmony R	552.2	+6.2	580.2	519.4	148.5
7.0	Harvest R	247	+3	430	244	278.8
2.8	Hecla Gold OS	552.2	-1	571	543	552.9

7.0	Wood (A)	N	100	
	Wynfield	W	40	

185	44	3.16	2.4	31.2	WTR Japanese Sate	185	44	3.16	2.4	31.2	WTR Japanese Sate	185	44	3.16	2.4	31.2	WTR Japanese Sate
76	43	71.8	-	11.9	WTR	76	43	71.8	-	11.9	WTR	76	43	71.8	-	11.9	WTR

BUILDING & CONSTRUCTION

Evans Halshaw	TyN	388	-3	538 1/2	385	123.2	4.8
Fisher Presst	N	556	-	586	409 1/2	112.3	3.4
Farrall	TyN	1537	-1	1558	480 1/2	726.5	1.0

William W.	115	228	110	1.84	5.8
Black & Decker Co.	£184	£184	£101	1,274	1.7

72	Normandy Port AS	88	-3	1294	82	427.3
1	Normandy Port R	694	-1	134	66	70.5

15.2	JBS	122
	Ulysses	199

203	118	115.8	7.7	11.2	Warrants	71	700
310	145	115.9	8.5	9.8	Warrant Redemption	136	136

BUILDING MATS. & MERCHANTS

Mitsui Mar Y	380 1/4	-50 1/4	570 1/2	380 1/4	2,785	0.9
Pac Dunlop AS	163	-1	279 1/4	162	1,770	0.6

Y	Raincoats	MC	69	71	16	34.1	-
1.9	8 ¹ / ₄ p Pl		83	89 ¹ / ₂	53	47.0	12.4
4.0	Record	MC	89	88	70	38.5	5.8

Highlands MS	88	-2	116	68	537.9	3
Hillsdown	175	—	198 ¹ / ₂	151	1,215	6
Isle of Man	251	—	28	18	89.8	—

28.8	China Inv Tot	76	-8
12.5	Warrants	291	-8
	City Max High Yld	130	

140	78	-	99.9	23.5	Piper Euro Sunk	<input type="checkbox"/>	94	-1	94
78	29.2	-	-	-	Warrant	<input type="checkbox"/>	85	-	43
163	137	7.9	137.0	-1.0					

STRAW (4) $\frac{1}{2}$ 28 +1 29 14 8.16 2.8 5.1

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L2 Value B Str ☐ £11.4 -33 9280 08 3.526 11- Intercom..... 46m -1 165 30 13.1 12

④ Finding Facts..... 360 4

422 340 1.1 351.7 43 When... 217. 1. 207.2

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TRANSPORT - Cont[illegible]

- Symbolism intended to deflect speculation by insiders and P/E ratios, on Monday.
- Market capitation shows it is questioned.
- Estimated price/earnings ratios accurate and, where possible, calculated. "Your distribution on profit after interest, mortgage ACT where applicable. Vicos are for a dividend tax credit of 20% estimated net figure."
- Estimated Net Asset Values (NAV) points per share, along with the firm - in the current closing of changes at par value, convertible options occur.
- Indicates the most actively used transactions and the following:
 - Securities Authorized for sale through the SEAD
 - Highs and lows increased or changes
 - Calculated as less increased or
 - Features as less reduced, per
 - Features or report available
 - See 2 (b)(4) Dividend income
 - & Free annual/interim report
 - US\$; not relied on Stock
 - 22. Buy 1.25% from 1991

1 At time of arrest on suspicion of murder
 2 Figures based on 1994-95
 3 Includes 1994-95
 4 Official definition
 5 1994-95
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BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)
 1st 2nd 3rd 4th 5th 6th 7th 8th 9th 10th 11th 12th

Full Capital Field	8.74	
Per Unit & Pacing	80.64	
North America Pd	80.70	
Continental Pd	75.15	
Intl Bond Pd	74.50	
Europe Pd	73.80	
Eastpoint Field	73.80	
1-10-1980	73.80	

[illegible]

BT Fund Managers (Ireland) Ltd
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1579	Good	A	_____	\$18.04	18.79	+0.12	12.5
1580	Good	A	_____	\$11.37	11.34	-0.03	12.5

[illegible]

Korea Spirit Fund Plc	50 98	-1.16
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AXA Equity & Low Int'l Fund Mgs			
Fundm. Equity	330.29	210.00	-0.57

11

2000 年
 10 月 1 日

Group 1	Group 2	Group 3	Group 4
1-10	11-20	21-30	31-40
41-50	51-60	61-70	71-80
81-90	91-100	101-110	111-120
121-130	131-140	141-150	151-160
161-170	171-180	181-190	191-200
201-210	211-220	221-230	231-240
241-250	251-260	261-270	271-280
281-290	291-300	301-310	311-320
321-330	331-340	341-350	351-360
361-370	371-380	381-390	391-400
401-410	411-420	421-430	431-440
441-450	451-460	461-470	471-480
481-490	491-500	501-510	511-520
521-530	531-540	541-550	551-560
561-570	571-580	581-590	591-600
601-610	611-620	621-630	631-640
641-650	651-660	661-670	671-680
681-690	691-700	701-710	711-720
721-730	731-740	741-750	751-760
761-770	771-780	781-790	791-800
801-810	811-820	821-830	831-840
841-850	851-860	861-870	871-880
881-890	891-900	901-910	911-920
921-930	931-940	941-950	951-960
961-970	971-980	981-990	991-1000

US Dollar Reserve _____ 58.19 8.62 [+0.01]
Henderson Management S.A. (a)

Scottish Explosives and Fertilizer Co. Ltd.
14 The Quadrant, L-1712, Luxembourg L10 252, Luxembourg
SEE INTERNATIONAL ADVERTISING PAGE 18

US Dollar Bond	95.15	-0.01
Yen Bond	94.12	0.00

هذه اعمه لاصول

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No FT, no comment.

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INDICES										US INDICES										SOUTH AFRICA (Jan 23 / Rand)										
	Jan 23	Jan 20	Jan 19		19845		Low				Jan 23	Jan 20	Jan 19		19845		Low													
Argentina General (2/21/77)	M	15157.52	15181.02	25470.00	18254	13353.46	1017.85			Japan Tokyo (4/1/68)	1360.08	1468.40	1453.51	1772.23	1345/4	1380.08	2017.05													
Australia All Ordinaries (7/1/62)		1057.8	1073.4	1084.4	2340.60	325/4				2nd Section (4/1/68)	1912.19	1933.20	1922.68	2526.63	67/4	1673.33	41/4													
Belgium All Belgium (1/62)		988.0	985.5	983.5	1126.10	32/4				U.S. Govt (4/1/62)	650.10	653.10	501.72	1234.66	5/4	600.10	21/4													
Canada Credit Index (20/1/59)		360.0	360.0	377.94	486.08	27/4				M	2055.85	2051.89	2081.17	6/2/4		1957.33	20/4/4													
France Bourse (1/1/61)		1947.36	1953.24	1007.25	1222.25	12/4				Midwestern	43.47	43.83	41.1	44.56	31/4	40.54	21/4/4													
Germany DAX (1/1/61)		978.08	978.34	1363.37	1542.05	3/4				CBS All Star (6/1/62)	27.27	27.5	24.88	31/4		25.79	21/4/4													
Italy Borsa (2/1/62)		3603.0	3603.0	3610.00	13/4					New Zealand Cap. 40 (1/1/68)	1947.61	1957.44	1976.76	2403.64	3/2/4	1676.05	121/2/4													
Japan Nikkei (2/1/62)		4194.46	4261.52	4363.67	10/4					Norway Oslo (2/20/62)	1049.0	1108.41	1117.39	1211.19	262/4	959.91	21/4/4													
United Kingdom Composite (1/1/78)		4938.20	4741.00	4860.00	235/4					Portugal Mark Cap (2/1/62)	242.43	242.85	245.88	326.37	4/4	241.43	21/4/4													
Netherlands Amsterdam (4/1/62)		1885.37	2011.00	2182.00	10/4					Spain Ibex 35 (1/1/77)	2765.9	2804.0	2826.0	3226.80	18/2/4	2612.80	23/4/4													
Sweden Stockholm (2/1/62)		342.48	347.80	348.00	418.20	2/4				Switzerland SBS All-Share (4/78)	472.00	465.00	506.7	64/1/4	4/4	472.00	23/1/4													
Denmark Copenhagen (2/1/62)		182.82	182.82	187.32	187.00	4/4				U.S. Govt (2/1/62)	1757.09	1772.47	1752.69	76/4		1748.00	14/2/4													
Finland HEX (20/1/72)		116.26	116.24	116.24	116.24	2/4				U.S. Govt (2/1/62)	6446.97	6563.7	6574.0	6694.40	201/2/4	5448.00	191/4													
France CAC (20/1/72)		1772.82	1772.82	1772.82	1772.82	2/4				U.S. Govt (2/1/62)	6446.97	6563.7	6574.0	6694.40	201/2/4	5448.00	191/4													
Germany DAX (20/1/72)		1772.82	1772.82	1772.82	1772.82	2/4				U.S. Govt (2/1/62)	6446.97	6563.7	6574.0	6694.40	201/2/4	5448.00	191/4													
Italy Borsa (20/1/72)		1772.82	1772.82	1772.82	1772.82	2/4				U.S. Govt																				

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FINANCIAL TIMES

AMERICA

Dow takes its cue from Tokyo stocks

Wall Street

The sell-off on Japan's Nikkei index and continued worries about another interest rate increase helped to push down a jittery US market yesterday morning, writes Lisa Branstetter in New York.

By 1 pm, the Dow Jones Industrial Average was down 20.09 at 3,545.52. The Standard & Poor's 500 lost 2.10 at 422.05 and the American Stock Exchange composite fell 2.21 to 435.43. The Nasdaq composite dropped 6.64 to 755.51. Trading volume on the NYSE came to 1.84m shares.

Investors took their cues yesterday morning from the Japanese market, which lost 5.6 per cent in Monday trading. That only added to continuing fears that the Federal Reserve will tighten monetary policy further at the January 31 meeting of its open market committee.

On Friday the Dow was down as much as 50 points during the day before it rebounded to close only 12.78 down at 3,569.43.

Several oil companies beat the falling market yesterday as quarterly earnings reports came in above analysts' expectations.

Exxon was up 1/4 at \$63.74, Amoco rose 3/4 at \$59.44 and Texaco climbed 1/4 at \$62.74. Mobil, which reported its earnings last week, added to Friday's gains, rising 1/4 at \$55.74.

Shares in Dr Pepper/Seven-Up Companies jumped more than 6 per cent, up 1/4 at \$35.74.

Brazil declines 4.1%

SAO PAULO fell 4.1 per cent in light midday trade on lingering concerns about whether President Bill Clinton would succeed in convincing Congress to approve the US aid package for Mexico.

The Bovespa Index was off 1,574 at 37,049 at 1300 local time, in low turnover of R\$79.3m (\$93.1m).

Telebras preferred plunged 6.0 per cent to R\$29.70, while Petrobras preferred gave up 5.5 per cent to R\$96.

MEXICO remained concerned about developments in the US Congress, while the market was also dragged lower

by a cabinet reshuffle in which President Ernesto Zedillo named new ministers for agriculture, agrarian reform and education.

The 37-share IPC index dropped 50.28 or 2.4 per cent to 2,015.57 in early trade, near to support at the 2,000 level.

Telecel shares dropped 1.6 per cent and its A shares slid 0.6 per cent.

The BURNOS AIRES blue chip Merval index dropped 9.29 or 2.3 per cent to 427.11 in early trade on continued fears of a lack of American resolve to help Mexico and expectations of higher US interest rates.

Canada

Toronto extended last Friday's significant declines, the TSE 300 composite index falling another 61.0 to 4,037.90 in a sell-off sparked by interest rate fears and concern over Canada's financial problems.

All 14 sector indices posted losses, led by golds, media, transport and conglomerates. Volume was 26.67m shares valued at C\$359m.

EUROPE

Whiff of panic as bourses follow Asia, US down

The plunge in Japanese and other Far Eastern stock markets yesterday, added to last week's equity weakness and the assumed direction of interest rates, left bourses with only one way to go, writes Our Markets Staff.

There was a whiff of panic, said Mr John Blackley at James Capel. Investors were worried that Japanese investors will pull money back from abroad to repair the domestic economy.

European equity markets had been trying to go better since the start of this year, said Mr Blackley, but there had been no strength in any upward movement that they had achieved. Renewed losses in US shares and treasuries yesterday afternoon put the finishing touches to a miserable day.

FRANKFURT, shaken by last Friday's Merrill Lynch downgrade of Daimler, saw its share price losses in the automotive and engineering sectors as the index declined 38.75 to 2,026.83 on the session.

Bunds saw pronounced weakness in the afternoon and the Dax index fell 12.50 to 1,778.73.

ASIA PACIFIC

Nikkei falls 5.6% to one-year low as region tumbles

Tokyo

Stocks plunged to a one-year low as the death toll of last Tuesday's devastating earthquake topped 5,000, writes Robert Patton in Tokyo.

A drop of 1,054.73 or 5.6 per cent took the Nikkei 225 average to 17,788.49, breaching the crucial 18,000 line for the first time since January 6, 1994 and only slightly above the day's low of 17,778.73, after a high of 18,817.91.

Declines swamped advances by 1,033 to 40, with 41 issues unchanged. The Topix index of all first-section stocks lost 63.72 or 4.7 per cent at 1,290.68; it had not been below 1,400 since December 8, 1993.

Volume was estimated at 400m shares, after Friday's 383.8m. The Nikkei 300 plummeted 13.09 or 4.9 per cent to 254.90. In London the ISE/Nikkei 50 index ended 1.49 to 1,414.68.

Foreign sellers of index shares triggered the slide in the market. Until recently, foreign investors had been an important source of support but yesterday it was reported that they were selling in response to growing fears that the costs of rebuilding Kobe would weigh heavily on an economy just beginning to dig itself out from the worst recession in its post-war history.

Some analysts put a positive face on the situation. Mr Yasuo Ueki, Nikko Securities manager of equities operations, called the day's move "excessive... an [overreaction] to negative effects of the quake". He felt that once the decline has run its course, the stimulative effects of rebuilding would cause the market to rebound.

However, the Osaka Chamber of Commerce and Industry chairman, Mr Masafumi Onishi, told a press conference that the losses to business due to earthquake damage far outweighed any economic stimulus that the need for

rebuilding might provide.

Meanwhile, the yen declined against the dollar, moving with the equity market for once. Brokers attributed the move to foreign sellers of Tokyo stocks shifting proceeds into dollars, lifting the US currency at the expense of the yen.

Construction shares lost much of their speculative appeal. Taisei fell 112 to 1,931, Sato Kogyo 130 to 1,730 and Obayashi 120 to 1,700, but Sumitomo Construction inched up 12 to 1,700 in volume of 6.3m shares, the day's fourth highest.

NTT took a massive ¥64,000 hit to close at ¥766,000, and other privatised companies plunged. East Japan Railway shed ¥11,000 to ¥466,000 and Japan Tobacco ¥16,000 to ¥981,000.

Heavy foreign selling also wiped out the gains of high-tech and electronics stocks which had attracted buyers last week. Matsushita Electric, which announced plans to join Time Warner and Toshiba in opposing the digital video disc standard recently proposed by Sony and Philips, receded ¥30 to ¥1,400. Toshiba declined ¥30 to ¥805 and Sony was off ¥130 to ¥4,910. Some analysts saw, in this situation, the potential for a replay of the costly battle of VHS and Betamax systems for video market dominance.

In Osaka the OSE average plummeted 824.30 points to 19,738.1.

Roundup

The region's response to Tokyo's fall was swift and decisive, coming on top of continuing worries about the health of the Chinese leader, Deng Xiaoping, and the outlook for higher interest rates. Investors were also worried that Japanese companies might withdraw money from overseas markets and slow their investment around the region after last week's earthquake.

HONG KONG finished at an

FT-SE Actuaries Share Indices

Jan 23		THE EUROPEAN SERIES											
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close					
FT-SE European 100	1201.65	1301.77	1301.49	1289.25	1298.02	1293.06	1291.82	1291.82					
FT-SE European 200	1354.52	1355.50	1355.82	1352.14	1351.28	1347.48	1346.58	1346.42					
	Jan 20	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	Jan 14						
FT-SE European 100	1313.62	1323.84	1327.01	1326.85	1322.54								
FT-SE European 200	1388.16	1376.91	1364.96	1365.53	1360.97								
All-time 676,160, High: 100 - 1200 - 200 - 1,562,528 Low: 100 - 729,177 - 200 - 1364,741 + Paid!													